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ABSTRACT

The report updates aspects of the 1977 report on California's Master Plan for Special Education. Reasons are sought for the intense debate over state funding for special education, which has substantially increased over recent years while special education enrollments have increased only modestly. In visits to nearly 100 local education agencies, the study team found that costs charged to special education varied dramatically, apparently as a result of accounting rather than program differences. Analysis of special education costs revealed a low degree of compliance with established guidelines for school accounting. Problems brought about by using the reported costs of special education for 1979-80 as the basis for funding special education are explored. Analysis of six districts was undertaken to examine equity among districts. It is concluded that the state's special education program is adequately funded to pay for actual costs. Difficulties with California's lack of specific eligibility criteria, and confusion over learning disabilities, are discussed. The need for standardized procedures and program coordination are emphasized. Among recommendations offered are that the State Department of Education should adopt clear and consistent standards for the accounting of expenditures in special education programs. The Master Plan for Special Education, accounting definitions, comments by the Department of Education and a response by the Department of Finance are appended. (CL)

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THE CALIFORNIA MASTER PLAN FOR
SPECIAL EDUCATION--AN UPDATE

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THE CALIFORNIA MASTER PLAN FOR
SPECIAL EDUCATION--AN UPDATE

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March 1983

PREFACE

This report is essentially an update of certain aspects of the Department's 1977 report on the California Master Plan for Special Education. This report was prepared during a period of rapid and substantial change in Special Education--as the legislature was debating and adopting legislation which both changed the Master Plan for Special Education and extended it statewide.

The information contained in this report was obtained through the cooperation of school officials at the State, county and district levels, to whom our thanks are extended.

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EXECUTIVE SUMMARY

California's public schools reported spending \$1.4 billion in 1981-82 to provide educational and related services to some 375,000 handicapped schoolchildren. These services were provided under the Master Plan for Special Education, a service and funding model for Special Education which became effective statewide in 1980-81. Controversy has become the norm for Special Education under the Master Plan, as State apportionments have risen from \$221 million in 1976 to \$726 million in the current year, although the number of pupils served rose more modestly, from 325,000 in 1976 to an estimated 380,000 in the current year. Despite this substantial increase in State support for Special Education, there continue to be efforts to secure additional annual funding of up to \$300 million. These efforts are based in large part on a comparison between the reported costs of Special Education and the actual amount of the State apportionment -- an amount equal to \$377 million that is characterized as "encroachment" by school officials. This report finds that such a comparison is meaningless. Although we know the amount of the State apportionment precisely, the reported costs are calculated differently by each of the over 1000 providers and generally exceed the actual incremental costs of operating Special Education Programs.

- o In visits to nearly 100 local agencies, the study team found that the costs charged to Special Education varied dramatically. Accounting practices, rather than program differences, seem to be responsible for most of the variation in reported costs. This means that identical programs operated by different agencies would report widely varying costs.
- o In part because of variations in cost reporting practices, some providers spend substantial amounts of general purpose funds to operate Special Education Programs, while others actually receive "outside" funds greater than the excess costs of operating the program.
- o Audits by Department of Finance staff found that special education costs were overstated by 17 percent. Correcting for this overstatement would reduce the level of "encroachment" by \$239 million to \$116 million, well below the minimum local share of \$167 million.
- o Some 400 local agencies receive general purpose Revenue Limit income from the State because of prior special taxes levied exclusively for Special Education. In 1981-82 this amounted to some \$150 million which only these 400 districts received from the State. The existence of these funds voids the argument for the State to fully fund "encroachment," since part of these "general purpose" revenues clearly exist because of Special Education. Adjusting the "encroachment" by this amount moves the providers into a profit situation--\$34 million in 1981-82.

- o The reported costs of Special Education include indirect charges of approximately seven percent. While such charges may be appropriate for purposes of local management information, they are not properly included in the cost base for State reimbursement, since they represent central administrative and other costs which are largely fixed to the district and are "paid for" by the State in the general purpose Revenue Limit apportionment. Removing these indirect charges from the reported Special Education costs reduces those costs by \$124 million and, when included with the adjustments discussed above, results in local profits of \$138 million.
- o The dismal state of the cost reports for Special Education is a consequence of the failure of the State Department of Education to implement either of two separate laws passed by the Legislature to require "the use of a uniform cost accounting procedure" and to "issue standards and criteria" for the computation of Special Education costs.

Based upon these findings, we recommend that:

- o A review and decision be made concerning the continued use of reported Special Education costs as part of the funding model.
- o The Legislature consider requiring that the \$150 million in Special Education-based Revenue Limit income be treated as Special Education revenues.
- o The State Department of Education should immediately issue clear and consistent cost allocation standards for Special Education so that cost reports will contain only those costs which would not occur in the absence of Special Education Programs.

The study also examined the adequacy of the eligibility criteria used to place children into Special Education Programs and reviewed the actual procedures used in the field. Such criteria are important if the State is to provide equitably for all of the State's schoolchildren. We found that while there is general agreement about the criteria used to place children into the more restrictive settings, theory and practice for the identification of the more mild handicaps of learning disability and speech vary widely among districts and even individual schools within districts. In our review of the literature and discussions with persons in the field, we found that there is no consensus as to the nature of -- or even the existence of -- learning disabilities. The placement practices of local schools and the educational programs provided for children identified as learning disabled vary greatly across the State and overlap substantially with both the client group and educational methods used in a variety of other special "categorical" programs. Many of the categorical programs pull children from their regular classrooms for longer periods of remedial small group or individual instruction than do Special Education Programs, but the paperwork required is much less time consuming. Some of the research reviewed by the study team suggests that there is no inherent difference between the remedial instruction available in Special Education and that offered in other types of programs. Under these circumstances, we recommend:

- o That the State Department of Education adopt clear and consistent standards for the placement of children into Special Education Programs which recognize the existence of other regular and

categorical programs available to serve children without labeling them as handicapped.

- o That the Department of Education and the Legislature consider merging Special Education funding for nonseverely handicapped children into the Governor's proposed block grant. School districts would be required to serve, and protect the rights of, handicapped children and to insure that the funds provide supplemental programs.

CHAPTER I

INTRODUCTION

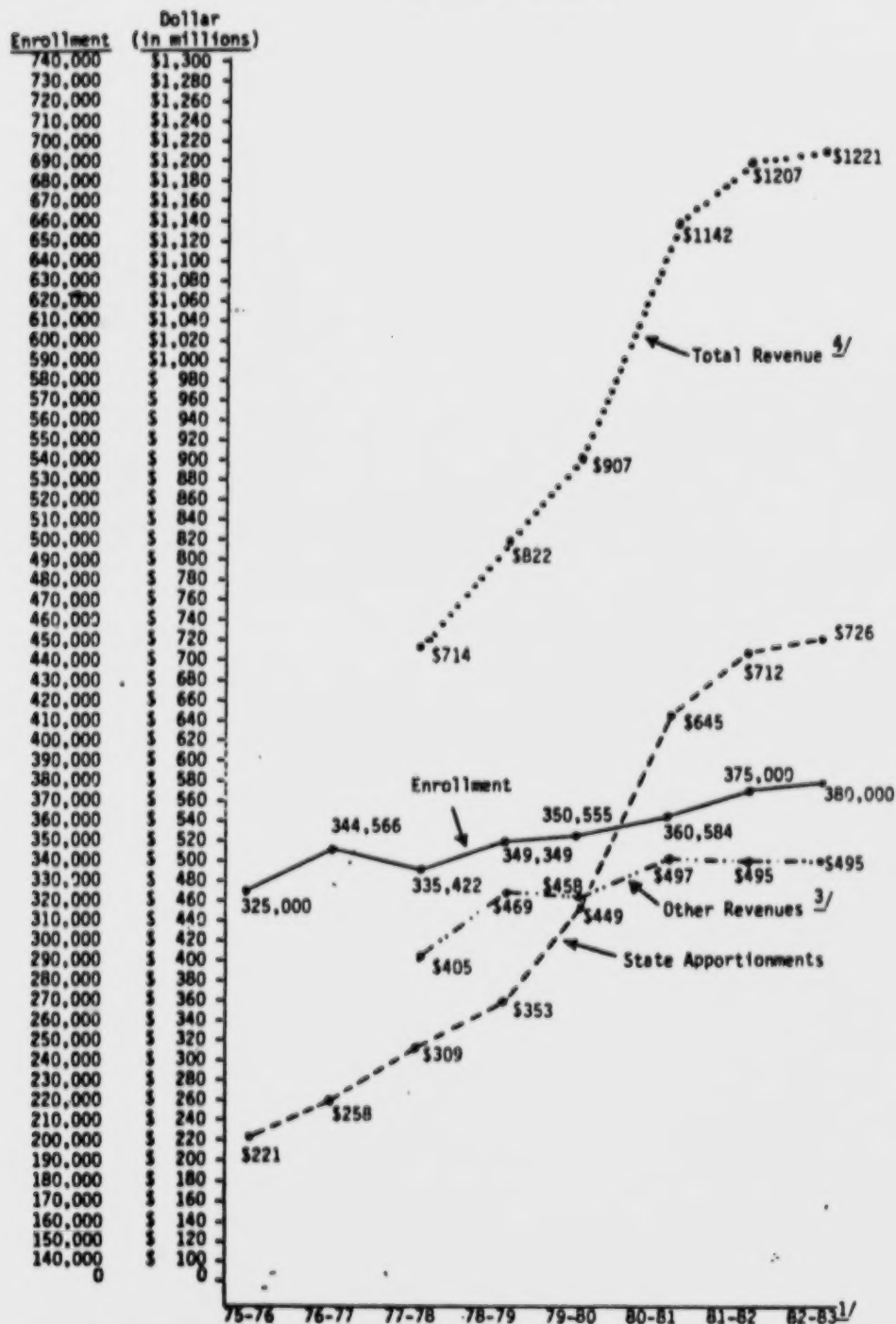
The California Master Plan for Special Education began as a pilot project in 1976, was extended statewide by SB 1870 of 1980, (Chapter 797) and subsequently modified by SB 769 in 1981 (Chapter 1094) and SB 1345 in 1982 (Chapter 1201). The Master Plan replaced the "categorical" system of Special Education with a service-based education system for handicapped children ages 3-21 which in a variety of settings provides education and related services to children based upon their individual educational needs.^{1/} In California in 1982 some 375,000 school age children were served by Special Education Programs at a reported cost of \$1.4 billion.

The State of California has increased its expenditures for Special Education substantially over the past decade, as can be seen in Figure 1, which illustrates the substantial rise--from \$221 million in 1976 to \$726 million in appropriations for Special Education at a time when the number of children served by Special Education grew more modestly--from 325,000 to 380,000.^{2/} In light of this substantial increase in funding and modest increase in pupils served, we will seek

^{1/}A brief history of Special Education in California and a description of the current Master Plan is contained in Appendix A.

^{2/}Part of this large increase arose from the increase of \$116 million in State appropriations for Special Education which took place in the Post-Proposition 13 shift of all K-12 education costs from the local property tax base to the State.

Figure 1
GROWTH IN PROGRAMS FOR HANDICAPPED CHILDREN IN CALIFORNIA SCHOOLS
1975-76 THROUGH 1981-82
ESTIMATED FOR 1982-83^{1/}



Source: Governor's Budget, 1982-83 Fiscal Year

^{1/}Governor's Budget, 1983-84 Fiscal Year

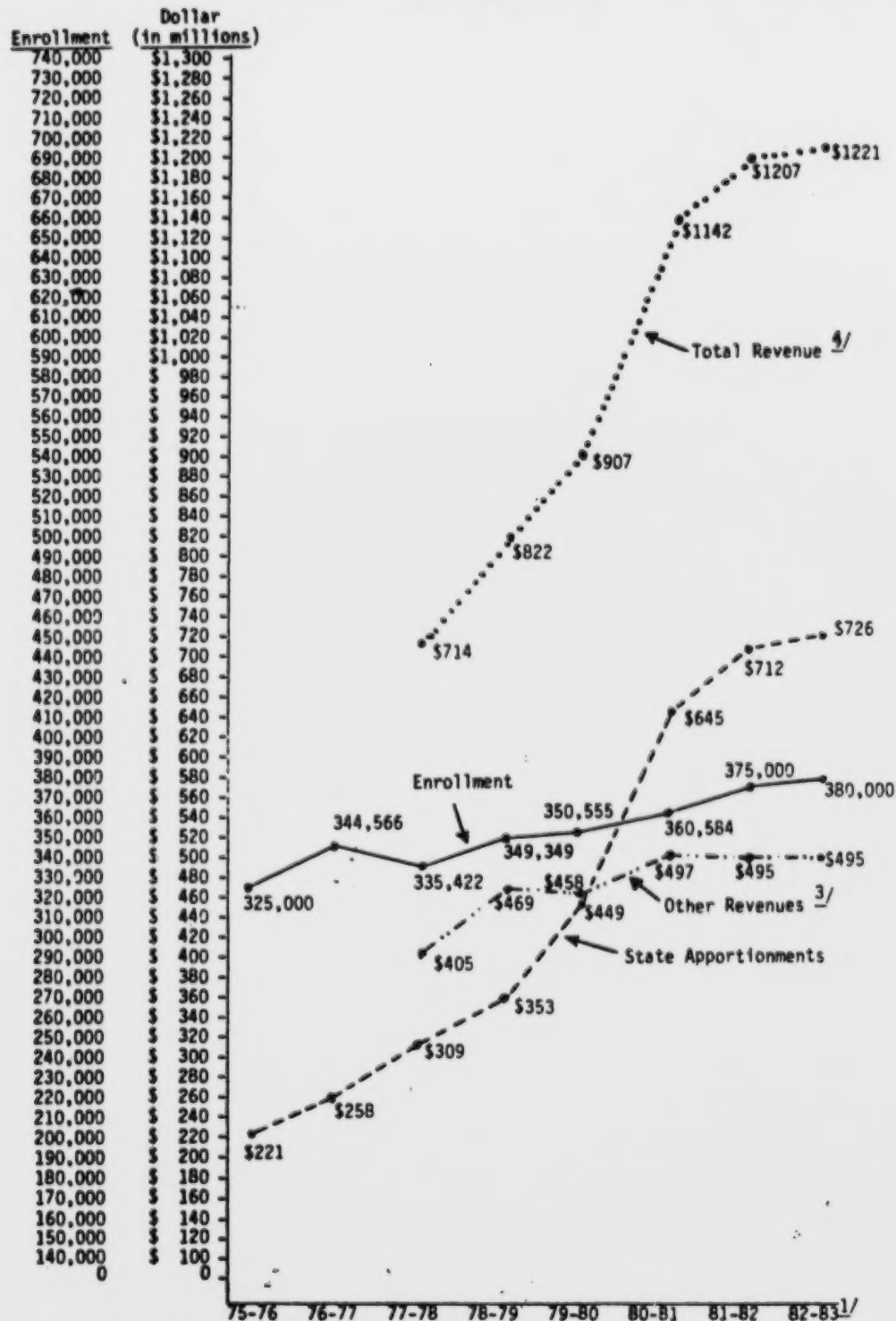
^{2/}Total reported special education program costs are not available.

^{3/}Consists of Federal PL 94-142 Funding, Local General Fund Contributions, County Taxes and State Revenue Limit Contributions.

^{4/}Total Revenue is the total of Other Revenues and State Apportionments.

This amount does not, however, reflect "encroachment" as shown in Table 1 and discussed on Page 3. Total revenue amounts were provided by Education Budget Unit, DOF. Total revenue not available for 75-76 and 76-77.

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to explain in this report why State funding for Special Education has been the subject of so much intense debate in recent years and why it has been said that the State imposed upon schools the requirement of serving handicapped children without providing adequate funding, forcing school districts to "encroach" upon the Revenue Limit funding which the State provides for general purpose district operations. School officials have charged that during this time of inflation and of greater pressure upon local schools to educate all children in more satisfactory ways, the State is forcing schools to divert resources away from the education of most children and to spend these resources--at the direction of the State--on a small group of children who are handicapped. We will also discuss another possible explanation for the rapid increases in costs, that some school districts are using special State funds appropriated for the purpose of educating handicapped children to provide for the ordinary expenses of the districts.

There were two major changes which took place at the same time and which have led to the current questions concerning Special Education funding. First, the Master Plan reorganized the delivery system for Special Education services to a regional, service based, model. This had the effect of increasing some costs, although the majority of the persons and programs in place for Special Education actually remained basically unchanged. Second, the funding model was to be based upon costs. The categorical system of Special Education had paid all districts a fixed rate for each type of class. The Master

Plan, however, uses a funding model based upon the actual costs to different agencies of providing Special Education.

Unfortunately, the State did not have accurate and reliable information about the costs of Special Education when SB 1870 was adopted. Some observers at that time pointed out that the cost reports submitted by local agencies had never had any consequences for funding and suggested that the State's information about Special Education costs was almost certainly inaccurate. Despite these concerns, the State created a funding model which assumed accurate and consistent cost reports from the school districts and counties providing Special Education services.

California began funding the State's Special Education Programs under the Master Plan approach for the 1980-81 school year under the provisions of SB 1870 (1980). Services are provided through SELPAs (Special Education Local Plan Areas) which may consist of a single school district, several school districts or a county office of education operating programs in conjunction with school districts. SELPAs receive reimbursement from the State for the costs associated with operating their Special Education Programs based upon the number of instructional units operated by each SELPA (subject to limitation) at a rate which is based upon 1979-80 reported costs adjusted by inflation. SELPA entitlements are adjusted by local General Fund contributions, the calculated dollar amount of local support for Special Education Programs which remains fixed at 1979-80 level.

Finally, Special Education transportation is paid for by the State based on prior year actual costs as reported, again subject to some limitations.

During the period of time that SB 1870 was being debated in the Legislature, concerns were expressed about the possibility that the legislation did not contain adequate funding to meet all SELPA entitlements under the funding formula. These concerns were proven to be correct when Special Education entitlements exceeded the appropriation available by approximately \$120 million in 1980-81, despite the fact that the Legislature had added \$200 million in new funds for Special Education for 1980-81. Adding to these concerns were projections that in the following year, 1981-82, the Special Education entitlement deficit might exceed \$200 million. The Legislature dealt with this situation by adopting SB 769, which allocated the deficit among SELPAs by instituting selective controls on the support services cost allowances used to fund non-classroom costs to which providers were entitled. The Legislature also appropriated an additional \$30 million for the 1980-81 fiscal year. The effect of these legislative actions was that the 1980-81 Special Education deficit was reduced to a total of approximately \$60 million.

For the 1981-82 school year the Legislature adopted SB 1345, a further modification of the Master Plan. This legislation made a number of changes in the program requirements imposed upon local school districts by State operated Special Education Programs, changes which

were designed to increase local flexibility and provide cost reduction opportunities for the SELPAs. This legislation also distributed an additional \$35 million for Special Education appropriated in the 1982 Budget Act, reducing the total 1981-82 entitlement deficit to approximately \$25 million. The State Department of Education in the first (of three) apportionment estimates for the 1982-83 school year includes a \$62 million deficit in Special Education entitlements.

It is this history of substantial increases in State expenditures, that seem always to fall short, that shapes our current questions and concerns. The State has provided substantially increased funding for Special Education in recent years. Special Education enrollments have grown only modestly over the same time. Why, then, has the funding model continually generated entitlements significantly above the available State funding and, more importantly, how does the level of State support compare to local costs? The reported costs of Special Education have been growing faster than the COLAs provided by the State; so besides the local General Fund contributions there is an even larger difference between total reported costs for Special Education and the amount of funds which are provided to the SELPAs by the State and Federal Governments. This situation has given rise to considerable district and county concern about underfunding and encroachment on the regular school program. It is in this environment of increased State support, and sharp statements of complaint regarding the adequacy of that State support that we provide this update of our

earlier work and attempt to explain why the State finds itself in its present dilemma. The balance of the report addresses these questions: Is the State Special Education Program adequately defined and funded? Is there, in fact, any substantial degree of encroachment by State mandated Special Education Programs into the general operating funds of local school districts and counties?

Just as we found to be appropriate in our 1977 report on the Master Plan Pilot Project, we find now that our concerns can best be divided into two separate areas, which will be our Chapters II, Special Education Costs, and III, Eligibility Criteria.

Cost standards and guidelines were described as an essential component of a statewide Master Plan in the 1977 report, which pointed at the rapid increase in both administrative and overall costs under the Master Plan Pilot Project and questioned the adequacy of existing estimates of the total cost of implementing the Master Plan. These were the reasons for the recommendation that the Master Plan for Special Education Pilot Project be continued until our concerns were resolved. In this current report, more extensive analysis of actual SELPA cost data for Special Education Programs is available to us and we find that our concerns have become alarms.

Eligibility criteria are critical for a Special Education Program because they define the extent to which such services must be provided by local SELPAs and, therefore, funded by the State. In 1977

we found considerable reason to be concerned about the adequacy of the eligibility criteria defining handicapped status for the State's school children. In this update we find that concern to be still appropriate, if not even more pressing to resolve.

CHAPTER II

SPECIAL EDUCATION COSTS

The Master Plan for Special Education has brought substantial changes in the way in which California finances its system of Special Education. Special Education funding has increasingly become a State responsibility. In the past, as the State began to mandate the provision of certain types of Special Education Programs, it developed a system of categorical funding for Special Education Programs. Under this system, for example, one funding allowance was paid for a class for the blind, another allowance for a class for the deaf and still another allowance for a class for the blind and deaf. In addition to this system of State allowances, some optional programs could be funded by school districts by means of override local property tax levies. Under the categorical system, districts were required to submit to the State fiscal data to demonstrate that they had expended all of the special State allowances on Special Education Programs. We have been told by both State and local officials, however, that these reports contained very incomplete information. Since the State allowances were not especially large, the district could frequently justify its allowance by entering only the costs of direct classroom personnel, sometimes not even including supplies or classroom aides. Any additional services often went unreported since the business personnel

completing the report realized that no additional revenues would accrue to the school district if the reported costs were in excess of the amounts that the district received for each type of class from the State.

When the Master Plan for Special Education was first signed into law, it required that the State pay fixed unit rates for each type of service setting to the agency providing Special Education services. Each Special Day Class, Resource Specialist Program and Designated Instructional Specialist unit generated a specified and uniform amount of funds statewide. Each pupil enrolled in a Special Education Program also generated a fixed amount of funds for assessment services and other support activities. This system was never actually used, however, as funding uncertainties led the State Department of Education to initiate a system of negotiation with each of the original participating local agencies. This ad hoc system evolved and, for the 1979-80 year, most Master Plan agencies received \$2,296 per pupil regardless of the nature or severity of handicapping condition of the child. This process had the obvious effect of creating a strong incentive to enroll mildly handicapped children in Special Education Programs so that the agency would have sufficient funds to provide for children who required services costing more than the \$2,296 provided.

When the Master Plan for Special Education was being designed by the State Department of Education, the funding model was one of the areas considered. The adoption and publication by the State Board of Education in 1974 of the California Master Plan for Special Education included principles for a financial model for Special Education

funding. "If a finance system is to foster the development of comprehensive, high quality Special Education Programs, the following steps should be taken:

- "1. The State should fund the excess cost of Special Education Programs up to a specified level (emphasis added).
- "2. The allocation of funds should be made on the basis of the needs of exceptional individuals rather than by categorical disability.
- "3. A control system must be developed to establish fiscal accountability and to preserve the integrity of use of Special Education funds.
- "4. Support must be adjusted on a regular basis.
- "5. Program standards must be enforced."

In this policy setting document, the State Department of Education endorsed the principle of the State funding the excess cost of Special Education Programs. The allowances that were provided each type of service under the original Master Plan funding model were sufficient to provide for direct classroom cost and for other support services such as assessment. In 1977, the Department of Finance conducted a fiscal audit of the costs of providing Special Education services in a sample of the school districts piloting the Master Plan and found that the excess costs of providing these programs were being substantially met by the State's funding allowances.

All this was to change in 1980, however, when SB 1870 was adopted by the Legislature and the provisions of the Master Plan were implemented statewide. SB 1870 included a totally new system for funding Special Education, one that was not based a standardized

reimbursement per class unit or per pupil, but was instead based upon actual cost of providing Special Education in each school district. The argument was made that the costs to different school districts throughout the State for education inputs such as personnel, transportation, utilities, etc., vary considerably and that the State should take this into consideration when funding Special Education. This feature was debated and discussed during the bill's progress through the Legislature. Another fundamental change in policy contained in SB 1870 was apparently largely ignored during these debates. This was the change from a funding principle which was based upon the State's funding the direct excess costs of Special Education, such as classroom teachers and aides, to a system which would also reimburse some schools for a part of their fixed costs, such as regular school principals and district superintendents. With little fanfare or debate, SB 1870 had made many more district expenses potentially reimbursable by the State's Special Education Program, moving the State away from the intent, cited above, of the State Board of Education "to preserve the integrity of use of Special Education funds". The appropriation provided with SB 1870 would contain a deficit because the cost estimates did not recognize this change.

The SB 1870 Funding Model

The SB 1870 funding model divided the cost of Special Education Programs into three main categories which would be funded separately. First, a relatively small amount distributed on a per pupil basis was

to be used for regional administrative functions. A second, larger amount was to be used in a separate fund for Special Education transportation. The third, and major category of Special Education Program entitlements are generated by Special Education Programs -- the costs of actually delivering Special Education services to handicapped children. This program category of funding was further divided into two main subsections: Instructional Units and Support Services.

Instructional unit costs were established for each type of instructional setting (Special Day Class, Resource Specialist Program and Designated Instruction and Services). Each agency providing Special Education services produced its own distinct unit rates by compiling the actual cost of salaries and benefits for its personnel working in each setting in 1979-80 and computing an average unit cost. This cost base was inflated by specified cost of living allowances (COLAs) each year to establish each provider's unique funding entitlement for that particular type of program.

Support services are basically those costs which were not in the pool used to create the Instructional Unit Rates or transportation costs. The total costs used to create instructional unit rates and the cost of transportation were subtracted from the total reported cost of Special Education and the balance was the support services cost for 1979-80. The support costs' fractional relationship to the total cost of the instruction units in 1979-80 became the Support Services Ratio (SSR). This was a multiplier which in future years would be applied to the Special Education Program entitlements generated by each provider for its Special Education instruction units. A district's entitlement

for Special Education funding was to be calculated as follows: A total is calculated of funds for each of the three categories (Program, Special Transportation, Regional Services). To that total is added the 70 percent State share of the cost of nonpublic school placement. From this total amount is subtracted the Revenue Limit income for Special Day Class enrollment, the district's Federal PL 94-142 funds and local general fund contribution (described below). The entire process flowed from provider cost reports, the most important of which was the total reported cost of Special Education for 1979-80.

The Local General Fund Contribution (LGFC) is a fixed dollar amount which is not inflated over time. It was calculated by subtracting payments for Special Education from the State and Federal governments from the district's total reported costs for Special Education in 1979-80. In some cases, the calculated LGFC was negative. In those instances, the LGFC was set at zero although districts were profiting from the programs.

The Local General Fund Contributions of districts ranges up to \$1837 per ADA and the statewide median LGFC is approximately \$37 per ADA. The wide disparity in LGFCs among the State's school districts is the source of many of the questions and concerns that have been raised about the Special Education funding model.

Previous Studies of Special Education Reported Costs

It is clear that the most important figures used to calculate all future Special Education reimbursements to school districts are the 1979 total Special Education costs -- which became the base for State reimbursement as well as for the calculation of Local General Fund Contributions. What do we know about the accuracy of these figures?

There have been a number of studies of the Special Education costs reported by local school districts and county offices of education. All of these studies have cited problems with the accuracy or adequacy of the reported cost data. The State Department of Education itself has reported to the State Department of Finance that in the base year of 1979-80 school "districts did not take (the) 1979-80 J41A seriously". In the Fall of 1980 the State Legislature began to hear of the much higher than anticipated costs of Special Education which were being reported to the State Department of Education for the 1980-81 fiscal year. Legislation passed in 1981 (SB 769) directed the State Controller's Office to audit the 1979-80 Support Services Ratios reported by school districts and counties, which ranged from two percent to 210 percent. The State Controller's Office was directed to review a sample of the cost reports (J41A and J73A) and entitlement forms (J50 Series) submitted by LEAs for the 1979-80 fiscal year and to determine the extent to which the costs used to calculate the report quotient were properly supported. The State Controller's Office conducted 35 audits and found the following:

- o That the costs of Special Education were overstated by an average of 16.5 percent.
- o That 20 of 35 audits concluded districts were charging Special Education Programs for support services which were based on estimates for which there was not adequate documentation.

As a result of this review, the State Controller suggested that "the Department of Education could use the results of audits along with other evidence to further study alternative methods of computing

Special Education entitlements . . . " Most of the problems encountered by the Controller's auditors arose from the allocation of direct support costs to Special Education Programs. For readers unfamiliar with this system, the total costs of Special Education are the sum of three different classifications of costs -- direct costs, direct support costs, and indirect costs.

- o Direct Costs are basically the costs of classroom teachers and aides and classroom supplies. Costs of support and administrative functions are first charged as direct costs to a support classification, then charged out as direct costs.
- o Direct Support Costs These costs -- or the manner in which they are charged to educational programs such as Special Education -- are the principal cause of the variability of Special Education cost reports. A few districts allocate little of support costs to Special Education, while others charge for a variety of services. Among the items which we have seen charged here, in a wide variety of proportions, are regular school principals and clerks, attendance and pupil welfare personnel, business and personnel officers and their staffs, regular home-to-school transportation, and utility and insurance bills.
- o Indirect Costs These are those support costs which are not allocated to programs as district support costs. They are added to each education program's sum of direct and direct support costs -- including Special Education -- on a prorata basis. These tend to be items which are fixed costs to the districts and do not vary with the level of Special Education Program or cost.

The decisions about whether to include in the cost base for any program, including Special Education, direct support costs and to some degree indirect costs are judgments made by school business or other officials and will not be uniform from school district to school district. Thus the reimbursement base for the Special Education Program is fundamentally one of variation due to differences in what was included in the costs of Special Education from district to district and from county to county in 1979-80. The Auditor General released a report in 1979, Special Education Financing Warrants Review, in which they indicated that "although the Department of Education provides standardized reporting forms, definitions and instructions, the data reported by local districts are sometimes incomplete and/or inaccurate. Some of the errors we identified in local data confirmed problems identified in the 1977 Department of Finance audit of the Master Plan Pilot Program."

The California Association of School Business Officials (CASBO) also released studies on Special Education Program cost accounting in 1982. In Budgeting for Special Education/Master Plan, CASBO states that "there is not a clear definition of which support services are to be charged to special education. The Form J41A reports should be completed according to the guidelines given in the California School Accounting Manual."

The types of findings discussed above led the California Legislature to include in SB 769 Education Code Section 56730.5, which required the Superintendent of Public Instruction to " . . . issue

standards and criteria, consistent with the California School Accounting Manual and State law, for the computation of Special Education Costs" These standards were to be issued by January 1, 1982; however, the Department has not issued these cost standards, nor have they adjusted the entitlements -- past or present -- for school districts which the State Controller's Office has issued audit reports indicating that the Support Services Ratio were incorrectly calculated and/or based on incorrect information. The study team's concern with the lack of adequate fiscal information about a program with reported costs of over \$1 billion per year, led us to conduct a series of cost reviews of Special Education Programs. The first was an interview with a fairly large sample of 82 school districts and 16 county offices which sought to identify the methodology used to allocate costs for Special Education Programs and to understand what costs were included in the Support Services Ratio and total Special Education costs for the districts and counties visited. Since there seemed to be a need for a more detailed audit of some of these costs, the Financial and Performance Accountability Unit of the Department of Finance was requested to conduct fiscal audits of a sample of school districts to determine the appropriateness of the costs which had been charged as Special Education for 1979-80, 1980-81 and 1981-82. The results of these two efforts, along with our conclusions, constitute the balance of this Chapter. The first results were published in a slightly modified form as part of the report of the Legislative Advisory Committee on Special Education established by SB 769.

What is Included in Special Education Costs

The system of financing Special Education used by the State of California is based upon the costs reported by school districts and counties providing Special Education services to eligible pupils. The intent of the law was to provide a level of funding for the classroom and support services required for Special Education which reflected the varying levels of costs and types of programs experienced by school agencies throughout the State. The basis for the funding mechanism was the 1979-80 cost of Special Education as reported on the "Supplemental Annual Financial Report" (J41A and J73A) filed by school districts and county offices of education.

Between October 1981 and March 1982, the study team visited 29 school districts and nine county offices of education and reviewed the basis for the reported 1979-80 Special Education costs. The school districts and counties visited were selected to include a variety of sizes and geographic locations. In five of the districts visited, district personnel indicated that there was "no basis" for the allocations made to Special Education, that the figures which appeared on the cost report submitted to the State were estimates with no actual basis in fact.

In general, there was a low degree of compliance with the provisions of the School Accounting Manual. This Manual, issued by the State Department of Education, is supposed to provide guidance to all K-12 education agencies in the State in the preparation of school financial records, including the "Supplemental Annual Financial Report"

(J-41A or J-73A) which was the subject of this review. Many districts employed methods of allocating costs to programs, including Special Education, which were not permitted under the School Accounting Manual. Even when the method was approved, documentation of the allocation was often either minimal or nonexistent.^{3/} Tables 1 and 2 summarize the findings of the review of district cost allocations to Special Education for 1979-80, the base year for all subsequent Special Education funding by the State. Total Special Education costs are obtained by adding the costs allocated from "support" areas (such as administration and operations) to direct "classroom" costs and then applying the district indirect cost rate (mostly administration) to the total. Most of the variation in district Special Education costs and Support Services Ratios arises from these allocations of support costs. It is important to note the extreme range which prevails in each of the allocation areas, variation which is reflected statewide in the range of total Support Services Ratios from 2.5 percent to 210 percent of classroom costs. Table 1 shows the percentage of each of the support items allocated to Special Education Programs as a direct support cost. Table 2 shows the Support Services Ratio which resulted from each direct support cost allocation.

^{3/}This finding is consistent with the finding of the Office of the State Controller in its review of 35 school agency Support Services Ratios that there is little compliance with the provisions of the School Accounting Manual or consistency in the way that Special Education costs are reported.

TABLE 1
PERCENT OF DIRECT SUPPORT ITEMS ALLOCATED
TO SPECIAL EDUCATION, 1979-80, J-41A

N = 19	Mean (s.d.)	Median	Range	Number of Districts Claiming Zero
Instructional Administration ^{a/}	14.52 (16.20)	10.00	0-58.57	4
Instructional Media	6.15 (6.22)	5.89	0-17.00	5
School Administration	7.14 (5.46)	7.34	0-38.50	3
Pupil Services	16.42 (16.32)	14.10	0-61.12	1
District Administration	2.89 (3.82)	0.31	0-18.07	8
Maintenance	2.58 (3.03)	2.91	0-18.33	8
Operations	4.90 (4.93)	4.12	0-14.63	3
Indirect Cost Rate ^{b/}	6.42	4.40	0- 7.99	0

^{a/}Definitions are presented in Appendix B.

^{b/}Reflects Indirect Cost Rate charged to all programs, including Special Education.

TABLE 2

SUPPORT SERVICES RATIO RESULTING FROM
DIRECT SUPPORT COST ALLOCATIONS, 1979-80, J-41A

N = 19	Mean (s.d.)	Median	Range	Number of Districts Claiming Zero
Instructional Administration ^{a/}	2.56 (3.11)	2.45	0-20.36	4
Instructional Media	1.30 (1.33)	1.31	0- 3.88	5
School Administration	8.00 (6.24)	7.23	0-28.03	3
Pupil Services	6.15 (5.66)	5.99	0-26.92	1
District Administration	1.70 (2.48)	0.14	0- 7.36	7
Maintenance	1.22 (1.50)	1.42	0- 9.01	7
Operations	4.71 (4.34)	9.38	0-17.51	3
Transportation ^{b/}	0.82 (1.37)	0.46	0- 6.58	7
Other Direct Costs ^{c/}	6.17 (5.99)	7.75	0.99-37.60	0
Indirect costs	8.80 (3.41)	9.58	3.75-14.18	0

^{a/}Definitions are presented in Appendix B.

^{b/}Includes only the amount allocated to Special Education in 1979-80 J-41A, but not deducted from Support Services Ratio.

^{c/}Includes nonclassroom teachers and aide costs allocated as direct charges to Special Education in the 1979-80 J-41A.

The review found that differences in support cost allocations tended to arise from differences in accounting techniques and practices rather than from differences in programs. For example, while one district claimed none of the costs of local school principals and clerks as a Special Education cost, another claimed over one-third of this cost as a Special Education expense. In both districts, the principals have substantially the same responsibilities and duties concerning Special Education Programs conducted on their school site, but the difference in reporting practices produced an administrative component of the Support Services Ratio of zero in one district and 28.03 in the other (see Table 2). Similarly, that some school districts made no charge for maintenance and operations does not mean that such costs were not incurred for Special Education classrooms, only that costs were not reported by the districts.

The methods used by school districts for Special Education cost allocations frequently involve allocations to Special Education of costs which are probably largely fixed to the district. For example, the basic administrative structure of the district (Superintendent, Board, etc.) probably has not been increased in most districts due to Special Education Programs and in fact has been funded by the State Revenue Limit. Districts in the sample, however, generated an average Support Services Ratio of 1.7 percent -- and up to 7.36 percent -- for allocations of District Administration costs to Special Education by allocating up to 18.10 percent of all district administration costs to Special Education.

The category "Other Direct Costs" in Table 2 reflects nonclassroom personnel costs which were charged as direct costs to the Special Education Programs. Such costs are intended to be restricted to classroom supplies and a few other minor cost items. Some districts, however, charged a large number of other costs here, most often items which should have been charged as direct charges to the pupil services area, and then recharged to Special Education Programs as direct support charges, if appropriate. While the average district in the sample generated a Support Services Ratio of 6.17 from "other direct charges," the range was from 0.99 to 37.60. In some cases major components of these costs were items such as PL 94-142 special projects which were not supposed to have been included in the Special Education cost item and which overstated those districts' total reported costs and Support Services Ratios. In other cases, local education agencies and/or the State Department of Education did not adjust the Special Education costs by the amount included by the agency for transportation, which also resulted in overstated Support Services Ratios.

The use of the reported costs of Special Education for 1979-80 as the basis for funding Special Education has led to the following problem areas:

1. The true costs of Special Education are unclear at the present time since each district has used different standards and practices in deciding what costs to include in Special Education.

2. The Indirect Cost rate applied to Special Education costs generates an average Support Services ratio of 8.80 (range 3.75 to 14.18). Most districts charge the lighting and cleaning of classrooms, administration, identification and assessment personnel, and similar costs for Special Education as direct support costs charged to the Special Education Program. Indirect costs consist mainly of district level administration.
3. Even when districts followed the School Accounting Manual, much of the costs allocated as Special Education were items such as district and school administration which were not incurred as a result of the district's Special Education Program. The allocation of such fixed charges is useful for program information, but questionable for inclusion in a funding base, since the items have already been funded by the State Revenue Limit.
4. What has been termed "district encroachment" is directly affected by the variations in accounting practices which have been described above. Some districts which reported high encroachment were reporting high allocations of fixed charges, as discussed in (2) above.
5. The funding mechanism for Special Education, combined with the variations in district practices, has resulted in funding inequities. Some districts have been able to absorb State funding shortfalls within the allocated costs of Special Education, although these allocated costs may not have represented the actual "extra" costs of this program. Other districts, however, have not

received funding for costs which have been incurred only as a result of the Special Education Programs.

Based upon this review, we concluded that:

- o At present, the differences in State payments for Special Education to different agencies throughout the State seem to reflect differences in accounting techniques rather than differences in program.
- o The inclusion of certain types of costs in the Special Education funding base has resulted in the State providing additional funding for administrative and other functions which had been previously created and funded with other district income.
- o The use of the 1979-80 cost data along with the present funding mechanism has resulted in some school districts being highly impacted by the expense of providing Special Education while other districts have had most or all of their Special Education expenses funded by the State.

Recommendation #1. A review and decision regarding the continued use of the J41A and J73A for cost determination must be made because of the findings that costs were reported in such an inconsistent fashion by different education agencies that serious questions must be raised concerning the appropriateness of continued State funding of Special Education on the basis of these cost reports.

Equity in Special Education Funding Among School Districts

Because costs are reported so differently by different school districts, the study team sought to analyze a sample of six districts in order to produce comparable data.

Since school districts report their costs in such varied ways, first, we have reported what the six districts reported their Special Education costs to be, and then we adjusted the costs to represent the same things in all six districts. The adjusted costs include teachers, aides and classroom supplies, as well as administration and clerical support for the special education program and any Special Education schools. Other costs can be included in such an analysis, but this is probably the most "pure" excess cost approach and, in any case, the purpose here is to view the districts' costs using a common base. The information is summarized in Table 3, which illustrates how the lack of a uniform accounting base distorts the costs presented by districts -- and how these costs compare to Special Education income.

- A. This unified school district with over 15,000 ADA ended the 1980-81 year with balance of \$2.5 million, some 8 percent of expenditures. If we look at the figures submitted to the State, it appears that the Special Education Program cost the district \$5.9 million, forcing the expenditure of the district's "Local General Fund Contribution" (LGFC) of \$1.0 million. However, when these figures are examined, we find that the district
- o Charged as Designated Instruction and Service (DIS) Units for 20 psychologist, counselor and nurse positions which were mostly included in the district Support Services Ratio. These units generated entitlements of \$43,000 each.

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TABLE 3

Special Education Costs and Income in Selected School Districts (Dollars in Millions) 1980-81

School District	(1) Reported Costs ^{1/}	(2) Outside Income ^{2/}	(3) Local Fund Contribution ^{3/}	(4) Additional "Encroachment" ^{4/}	(5) Adjusted Cost ^{5/}	(6) Calculated Local Cost ^{6/}	(7) Outside Income as a Percentage of Reported Cost ^{7/}	(8) Outside Income as a Percentage of Adjusted Costs ^{8/}
A	\$5.9	\$4.6	\$1.0	\$0.3	\$3.7	(0.9)	78%	124%
B	2.6	1.8	0.9	(0.1)	1.6	(0.2)	69%	113%
C	9.4	5.9	3.2	0.3	5.5	(0.4)	63%	107%
D	3.2	2.3	0.5	0.4	2.5	0.2	72%	92%
E	3.6	1.3	0.4	1.9	1.9	0.6	36%	68%
F	0.27	0.12	0.12	0.03	0.19	0.07	44%	63%

^{1/}As reported in J-41A for 1980-81.

^{2/}Total of State Special Education entitlement, Federal PL. 94-142 Funds and revenue Limit Income for Special Day Class ADA. Source: SDE

^{3/}Calculated Local General Fund Contribution. Source: SDE

^{4/}Reported Costs (1) minus the sum of outside income (2) and Local General Fund Contribution (3).

^{5/}Costs in 1980-81 for Direct Instructional Program (teachers, aides and classroom materials) plus the administration of the Special Education Program and of any Special Education Schools. Estimated by DOF staff from district financial records.

^{6/}Adjusted Cost (5) - Outside Income (2)

^{7/}Outside Income (2) ÷ Reported Costs (1)

^{8/}Outside Income (2) ÷ Adjusted Costs (5)

TABLE 3

Special Education Costs and Income in Selected School
Districts (Dollars in Millions) 1980-81

School District	(1) Reported Costs ^{1/}	(2) Outside Income ^{2/}	(3) Local Fund Contribution ^{3/}	(4) Additional "Encroachment" ^{4/}	(5) Adjusted Cost ^{5/}	(6) Calculated Local Cost ^{6/}	(7) Outside Income as a Percentage of Reported Cost ^{7/}	(8) Outside Income as a Percentage of Adjusted Costs ^{8/}
A	\$5.9	\$4.6	\$1.0	\$0.3	\$3.7	(0.9)	78%	124%
B	2.6	1.8	0.9	(0.1)	1.6	(0.2)	69%	113%
C	9.4	5.9	3.2	0.3	5.5	(0.4)	63%	107%
D	3.2	2.3	0.5	0.4	2.5	0.2	72%	92%
E	3.6	1.3	0.4	1.9	1.9	0.6	36%	68%
F	0.27	0.12	0.12	0.03	0.19	0.07	44%	63%

^{1/}As reported in J-41A for 1980-81.

^{2/}Total of State Special Education entitlement, Federal PL. 94-142 Funds and revenue Limit Income for Special Day Class ADA. Source: SDE

^{3/}Calculated Local General Fund Contribution. Source: SDE

^{4/}Reported Costs (1) minus the sum of outside income (2) and Local General Fund Contribution (3).

^{5/}Costs in 1980-81 for Direct Instructional Program (teachers, aides and classroom materials) plus the administration of the Special Education Program and of any Special Education Schools. Estimated by DOF staff from district financial records.

^{6/}Adjusted Cost (5) - Outside Income (2)

^{7/}Outside Income (2) ÷ Reported Costs (1)

^{8/}Outside Income (2) ÷ Adjusted Costs (5)

- o Made a number of allocations to Special Education costs in 1979-80 which were inconsistent with the School Accounting Manual and resulted in an inflated Support Services Ratio of 80 percent.

If we examine the 1980-81 reported costs and select those directly related to Special Education (direct classroom charges plus the administration of the program and of Special Education Schools) we find outside income (State entitlement, Federal 94-142 funds and Revenue Limit for SDC pupils) of \$4.6 million versus costs of \$3.7 million -- or a "profit" of \$0.9 million in addition to the \$1.0 million in LGFC.

- B. This unified school district with over 15,000 ADA had a Support Services Ratio of over 0.65, moderately above the statewide average of 0.52. However, a great deal of this ratio was generated by practices not approved in the School Accounting Manual. The district reported Special Education costs of \$2.6 million in 1980-81, an increase of only \$0.1 million over 1979-80 costs. This increase resulted mainly from an effort to allocate costs more in conformance with the School Accounting Manual (teacher and aide costs were only 48 percent of total reported costs in 1979-80, but were 61 percent in 1980-81). The district received outside income of \$1.8 million in 1980-81, so that it had to spend only \$0.8 million of its \$0.9 million local General Fund contribution and had the \$0.1 million difference taken from its 1981-82 entitlement. The adjusted costs to the district for direct Special Education

costs total \$1.6 million, or \$0.2 million less than outside income and \$1.0 million less than the total reported costs.

- C. This large urban district had a Support Services Ratio of over .90, most of which was due to allocation procedures which were not in accordance with the School Accounting Manual and which over-allocated costs to Special Education. The district reported 1980-81 Special Education costs of \$9.4 million, which meant that it spent \$0.3 million more than its \$3.2 million local contribution while receiving \$5.9 million in outside funding. The adjusted excess cost base, however, is only \$5.5 million, or \$3.9 million less than the total reported costs and \$0.4 million less than the district received in outside funding.
- D. This unified district with about 25,000 ADA has a below average Support Services Ratio of 0.27, mainly because it allocated less than average proportions of school administration, operations and maintenance to the Special Education Programs in 1979-80, as well as in 1980-81. The district reported Special Education costs of \$3.2 million in 1980-81 while its outside income was \$2.3 million, so that the district spent \$0.4 million more in Local General Funds than its \$0.5 million required contribution. Adjusted Special Education costs for the year were \$2.5 million, so that on this basis the district spent only \$0.3 million of its \$0.5 million in local contributions.
- E. This high school district with over 20,000 ADA made a number of mistakes in the calculation of its Support Services Ratio which

happened to more or less offset each other. In 1979-80, the district allocated no school administration costs and less than two percent of pupil services to district administration, maintenance, operations costs and special education. In 1980-81 the district reported total Special Education costs of \$3.6 million. The increase from \$1.5 million reported in 1979-80 was almost entirely due to the \$1.5 million in their charges for school administration, maintenance and operations that were not charged in 1979-80. The district received \$1.3 million in outside income in 1980-81, so it appears to have spent \$2.3 million in local general funds, far exceeding the calculated general fund contribution of \$0.4 million. However, the adjusted costs of Special Education classes and administration only were \$1.9 million, so that this district spent \$0.6 in general fund income -- \$0.2 million more than its calculated general fund contribution of \$0.4 million.

- F. An elementary district with 2,000 ADA reported Special Education costs of \$270,000 for 1980-81, while receiving outside income for Special Education of \$120,000. Since the LGFC was \$120,000, the district "spent" \$30,000 more than its calculated cost share. Looking at only Special Education classroom and administrative costs, the district spent \$190,000, so that it actually did spend \$70,000 more than was received in outside income for special education.

The real irony, considering the disparities of the six districts above and the 1,000 or more districts and county offices which they represent, is that despite their far different prospects, the State treated all districts to an identical proportionate reduction in their State aid when it learned that there was a deficiency in the Special Education apportionment. The district (F) that ended up receiving only 63 percent of its direct "excess" costs from the Special Education Funds had precisely the same pro-rata deficit factor applied to its funds as did the district (A) that ended up receiving outside funding equal to 124 percent of its similar costs.

Our six were not unique. There are others like each of them, and while some of their relative positions of financial gain or loss from their special education programs were within their own destiny to control, others were clearly not. That the State -- for all its good intentions -- was branded the villain in this process is in large part the result of the synergistic effects of a decline in the rate of acceleration of funding for public schools and the business practices of many school districts. The evidence suggests that Special Education reported costs have increased primarily because districts have shifted costs to Special Education from other programs, not because of new district expenditures.

What Are the State's Options?

These problems raise serious questions regarding the State's present quality of management information as well as the funding

mechanism for Special Education. Although reported Special Education expenditures by State and local agencies exceed \$1.4 billion annually, at this time the State has no uniform definition of what costs are to be included in that figure or in the figures presented by local school agencies as representing their "costs."

Among the options now open to the State are:

1. Retain the status quo.
2. Retain the present funding system, with tightened cost allocation standards to reestablish the 1979-80 funding base year using common definitions and procedures for all local education agencies. The 1980-81 and subsequent years' apportionments for Special Education would then be based on the revised 1979-80 base year. Some possible actions if this option were adopted are:
 - a. Reduce the record keeping required by LEAs, especially small agencies for whom accounting and records appear to be particular problems.
 - b. The audit guidelines for 1982-83 could be amended to include compliance with any revised cost standards.
 - c. The final 1982-83 Special Education Report (J-50 Series) from districts and counties could include a separate certification that the LEA has complied with any revised cost allocation standards.
 - d. Cost allocation standards issued by Department of Education could be tightened to reflect the implicit standards utilized by the State Controller's audits of Support Services Ratios.

- e. Cost allocation standards could permit only one method of allocating each category of cost to insure greater uniformity among LEAs.
 - f. The Department of Education could redefine allowable Special Education costs to incorporate a strict excess cost approach to eliminate funding for allocated fixed charges such as administration.
3. Retain the present funding system for instructional units, but adopt a fixed Support Services Ratio. The review of LEA Special Education costs indicated that the costs for classroom personnel for instructional units were usually correctly presented. However, due to the accounting differences described above, the costs which compose the Support Services Ratio varied widely. A fixed ratio, or a ratio which would be allowed to vary within a narrow band, would also provide the State with an opportunity to:
- a. Reduce the record keeping required by LEAs.
 - b. Provide a ratio which would support the reasonable incremental costs of operating Special Education instructional units without funding items such as school and district administration unless they are directly increased by the presence of Special Education instructional units.
 - c. Encourage the districts and county offices which compose Special Education Service Regions to manage and allocate all of the resources for instructional units and support programs in a cost-effective fashion for the region as a whole.

4. The State could adopt a more comprehensive reform of its Special Education financing system. This may be desirable in light of the State's present experience with the complex reporting requirements and the many unsatisfactory aspects of the present system. One option which is used in a number of states is the excess cost approach, in which the state pays all or a fraction of certain specified excess costs of Special Education services. This approach has a number of advantages, since the State knows what it is paying for (it can specify only costs that increase when Special Education Programs are offered). Furthermore, all local education agencies pay the same proportion of the excess costs of the program, eliminating most of the reasons for the present inequitable treatment among the State's school districts and county offices. The State could help insure that LEAs maintain an interest in prudent program expenditures by funding less than 100 percent of the excess costs and creating a district-State partnership "cost-share".

Special Education Revenues in Local Revenue Limits

We have heard educators argue that the State should fund the entire reported cost of Special Education, that no part of district Revenue Limit income should be "encroached on" to support Special Education. This argument ignores the fact that the K-12 general purpose apportionment mechanism is a funding system, school districts can, and do, routinely spend widely varying amounts on individual "regular" pupils. Consider the "expensive" high school student who

takes a full load of academics and Lab Sciences versus the "Independent Studies" or "work studies" student who is earning the district a Revenue Limit while working in a local fast-food outlet, or the elementary youngster who attends a school operating at half of capacity versus one whose school is crammed with pupils on double sessions.

This claim by school districts of deficient State support for Special Education also ignores a stream of revenues originally provided through local property taxes for Special Education, that has been converted by most agencies to general purpose use. Chapter 1406, Statutes of 1972 (SB 90), eliminated these override taxes and rolled the value into the Revenue Limit. While this income is not required by the State to be expended on Special Education, its origin as funding specifically for Special Education is another reason to question the efforts of school districts to exclude handicapped students from district general purpose fund responsibility. These revenues, which may be as much as \$150 million in 1981-82, are part of the basic Revenue Limits paid to districts. When the State established Revenue Limits in 1972-73, it included special override taxes which districts were levying exclusively for Special Education. The Office of the Superintendent of Schools of one large county has analyzed the amounts involved and has determined that school districts in the county in 1980-81 received from \$0 to \$134 per ADA in their base Revenue Limits because of past expenditures for Special Education.

We presently have no way of knowing whether or not districts which receive all these Special Education overrides in their revenue limits are even expending those funds on Special Education or whether

their programs are fully supported by the State's current Special Education funding program.

Recommendation #2.

Regardless of the funding model adopted for Special Education, the Legislature should consider identifying the amounts that are incorporated into the basic Revenue Limits for school districts as a result of Special Education override taxes in existence in the 1972-73 base year and dedicating that income as Special Education revenue.

School districts also have current Revenue Limits higher than they otherwise would be if their Special Education costs in 1972-73 were higher than the income specifically generated by Special Education. A school district's 1972-73 revenue, and subsequent Revenue Limit as adjusted for inflation, are higher where a school district voluntarily chose to expend a portion of its general purpose funds on Special Education Programs. With the creation of the Revenue Limits in 1972-73, these extra expenditure amounts for Special Education have been built into the funding base and have continued to be funded by the State. An analysis of Special Education cost reports for 1972-73 shows that providers received 63 percent of their reported costs from the State. It is probable that the actual local share was in excess of 37 percent, however, since there appears to have been a bias towards underreporting total costs. If these programs were underfunded in 1972-73, the general purpose revenues expended on these programs in that year were acknowledged by the State and included in the local revenue base during the creation of the district Revenue Limit. It

would be difficult to estimate the dollar amounts involved, since it would involve a comparison of the 1972-73 income for Special Education with the reported expenditures for Special Education by school districts. This effort could be undertaken, if it were desired to examine the validity of claims by some school officials that none of their general purpose revenue entitlements should rightfully be expended on Special Education Programs.

It is also essential -- regardless of the type of Special Education funding model adopted by the State Department of Education and the Legislature -- that an improved accounting system for Special Education be established. Much of the difficulty which the State has experienced in trying to operate the existing Special Education funding model stems from the failure of the State Department of Education to require school districts to use consistently defined criteria for what are and what are not appropriate costs to be included in Special Education Programs.

The Department of Education has actually been required since the April 30, 1977 operative date of Education Code Section 41012 (Chapter 1010, 1976) to have a "Uniform cost accounting procedure to determine allowances for handicapped minors."^{4/} As we have discussed throughout this chapter, the cost reports submitted by local agencies

^{4/}Education Code Section 41012. Uniform cost accounting procedure to determine allowances for handicapped minors. For purposes of determining allowances pursuant to Chapter 8 (commencing with Section 52200) of Part 28 of Division 4, and Chapter 3 (commencing with Section 56500), Chapter 4 (commencing with Section 56600), and Chapter 5 (commencing with Section 56700) of Part 30 of Division 4 of this title, the Superintendent of Public Instruction shall require the use of a uniform, cost accounting procedure, as set forth in the California School Accounting Manual. (Emphasis added.)

for Special Education have been anything but uniform. Because of this, we have found ourselves with a situation in which it is impossible to compare Special Education expenditures from district to district, because each district chooses what costs to include in these programs. Thus, districts that actually operate very similar programs and have similar salary schedules may report widely different costs depending on the accounting practices which are used by that district. Not only is this inappropriate for a program which was intended to fund the actual costs of providing special educational services to children, but it leads to a situation in which school districts can manipulate the State's funding program by increasing the allocation of fixed costs to Special Education Programs while diverting costs from the regular education program. This routing of regular program costs to the Special Education Program makes the cost of Special Education greater than the funds provided for it, and districts can then claim that the State has failed to pay for mandated programs. While the Legislature has not fully funded the claims of school districts for such claimed costs, they have certainly funded a large enough portion of them to encourage school districts to continue this practice.

Recommendation #3.

The State Department of Education should be required to adopt clear and consistent standards for the accounting of expenditures in Special Education programs. The intent of these standards should be to ensure that similar programs operating throughout the State will report

similar expenditures, that they will demonstrate similar effort, and that any changes reflect actual changes in the program rather than allocational changes. The Department of Finance suggests that these accounting changes be based upon a direct excess cost approach. Only those costs of operating Special Education programs which clearly would not exist in the absence of Special Education programs would be appropriate charges to these programs.

Costs and Revenues: Is There Encroachment?

In the preceding sections of this Chapter, we have discussed the many variations and other problems with Special Education costs as reported; demonstrated how the information currently available distorts the fiscal information in a group of six typical districts; and explained why some 400 of the State's school districts receive some Revenue Limit funding which originated from Special Education costs. Now we shall combine this information to answer the questions raised in Chapter I. Is the State's Special Education Program underfunded? And, is there encroachment?

In a February 1983 report, the Department of Finance published the results of an audit of a sample of seven school districts by the Department's Financial and Performance Accountability Unit. The results of this audit have been extrapolated to a statewide basis and are summarized in Table 4. While the sample size is such that we would ordinarily hesitate to draw statewide conclusions, we feel that

to do so is appropriate in this instance because (1) the audit findings are strikingly similar to those released by the Office of the State Controller in its audit of 35 districts; (2) they conform to this study team's findings in nearly 100 visits to providers and (3) the scale of the resulting adjustments is so massive that small errors would be of little consequence in the total thrust of the findings. Obviously, a completely accurate statewide accounting of the costs and revenues of local Special Education Programs will be impossible to obtain until such time as the Department of Education provides and enforces the standardized/uniform Special Education cost standards required by law. We would like to see this take place as soon as possible.

The FPA audit found that district Special Education costs were overstated by 17 percent -- the Controller had established a 16.5 percent error rate. This overstatement was \$239 million of the \$1.4 billion cost reported for 1981-82. This means that the cost to LEAs becomes \$116 million -- \$51 million less than the required "Local General Fund Contributions."

If the estimated \$150 million in Special Education taxes in district Revenue Limits are used to offset Special Education costs, then districts are shown to have \$34 million in excess revenue -- the Local General Fund Contribution is more than eliminated. Even if these funds are not accounted for as Special Education revenues, their origin and the fact that they accrue only to some districts that had certain Special Education Programs, would seem to eliminate any basis for the

Table 4
SPECIAL EDUCATION PROGRAM COST TO
LEAS BASED ON 1981-82 COST AND
REVENUE INFORMATION FOR
FISCAL YEAR 1981-82
(Millions)

Sources of Revenue to Program Costs (1)	Cost to LEAs (Millions)						
	Millions of Dollars (2)	Percentage of Total (3)	Reported Costs and Outside Revenue (4)	CSAM Costs and Outside Revenue (5)	Reported Costs and Outside Revenue (6)	CSAM Costs and Total Outside Revenue (7)	Direct Cost and Total Outside Revenue (8)
a. State General Fund (Local Assistance)	\$ 712 ^a /	52.5%					
b. Revenue Limit	98	11.2%					
c. County Taxes	64	4.6%					
d. Federal PL 94-142	68	4.8%					
e. 1980-81 Balance per Chapter 1094/81	6	.4%					
Subtotal - Outside Revenue	\$1,048	73.1%	\$(1,048)	\$(1,048)	\$(1,048)	\$(1,048)	\$1,048
e. Local General Fund Contributions	167	11.9%					
f. Encroachment	188 ^b /	15.0%					
Total Reported Costs	\$1,403	100.0%	\$1,403	\$1,403	\$1,403	\$1,403	\$1,403
g. Adjustments							
- Adjustment for "Method" of Accounting Program Costs				(239)		(239)	(239)
- Special Education Taxes (Revenue Limit)					(150)	(150)	(150)
- Indirect Costs							(93)
Net Cost or (Excess Revenue)			\$ 355	\$ 116	\$ 205	\$ (34)	(132)

^a/Items "a" thru "e" are based on SDE's summarization of LEAs' J50 NET/Ent, State Net Entitlement (1981-82).

^b/Computed difference between total of "a" thru "e" and total reported costs.

^c/This total is a combination of 1981-82 reported J73A costs and a projection of State Department of Education's estimated 1980-81 Special Education Program costs to 1981-82. Total program cost data for 1981-82 was not available as of January 18, 1983.

SOURCE: FPA, DOF

argument being made by school officials that any support of Special Education Programs by Revenue Limit funds is "encroachment."

Most of the costs that are allocated as indirect costs come from district administration. Since the State supports these costs through the Revenue Limit, it is not appropriate for the State to "double-fund" these activities by funding them again through the Special Education entitlement program. Removing these costs would eliminate an estimated \$98 million in Special Education costs for 1981-82 and would increase excess revenues to \$132 million.

All of these projections, of course, are for statewide totals. Just as we saw with the six districts discussed earlier, not all districts receive "excess revenues," while some receive more than their share. The result is a system of substantial inequity among districts. In answer to our questions:

IS THE STATE'S SPECIAL EDUCATION PROGRAM ADEQUATELY FUNDED?

YES, in fact there are more than enough funds to pay for the actual costs of Special Education Programs.

IS THERE ENCROACHMENT? NO, NO AND YES.

No, there is no encroachment when costs and revenues are computed on a statewide basis.

No, there is no encroachment for some school districts which actually receive more from the State and Federal governments than their excess costs of operating these programs.

Yes, there probably is encroachment for some school districts; those without Revenue Limits swelled by prior Special Education taxes and whose instructional "unit rates" are also low.

CHAPTER III

ELIGIBILITY CRITERIA

Since the Master Plan for Special Education provides funding for each eligible pupil served, up to a maximum proportion for each service entity, the criteria used to determine when a pupil is -- or is not -- appropriately served by Special Education are extremely important. The establishment of consistent, specific criteria is most important for those pupils who are mildly handicapped.^{5/} There appear to be few problems with the selection of eligible pupils for placement in the more restrictive Special Education settings of special classes and centers, since pupils with severe handicapping conditions tend to stand-out from the general population. However, there is a large "grey area" of pupils for whom Special Education services are of questionable appropriateness, and here is where most of the recent growth in Special Education enrollments has taken place.

^{5/}While there may be disagreement over the definition of what constitutes a "mild" handicap, it is important to recognize that many handicapping conditions exist in the population in a continuum from nonexistent to mild to severe. Where to draw the line and define the individual as handicapped and entitled to receive Special Education services is of critical importance, since as many Special Education professionals point out, there will always be that "next" child who could possibly be defined as handicapped and in need of Special Education, especially in the areas of learning handicapped and speech therapy.

An SRI study of special education noted that the number of children identified as learning disabled has increased dramatically under the Master Plan. The Independent Evaluation of the California Master Plan for Special Education, published by SRI May 1982, noted that "Master Plan areas that had been in the program for only 1 or 2 years showed substantial growth in the percentage of special education students identified, and this growth was tied to the increase in the number of LH (learning handicapped) students identified."

In field work throughout the State, the study team has found that mildly handicapped pupils may or may not be admitted to Special Education Programs depending upon the nature of the school they attend and the availability of alternative resources at that school, including compensatory education programs. Our observations were confirmed by SRI's finding that the "flexibility and subjectivity built into current LH regulations and into identification and assessment practices across districts resulted in students being identified as LH in one district and as ineligible in another." This means that some pupils are being "labeled" as Special Education pupils while receiving substantially the same types of services which other pupils receive through compensatory education or other programs operated outside of Special Education.

What other states are doing with eligibility criteria

Nationwide, the rapid growth in the learning disabled student count has led a number of States to establish more specific criteria for assessing the eligibility of students for special education services.

In Ohio, an individually administered test of ability must be given as well as individually administered standardized tests in the areas of basic reading skills, reading comprehension, mathematical calculation, and mathematical reasoning as well as assessments of oral and written expression and of listening comprehension. In order for a child to be eligible, there must be a severe discrepancy (a two standard deviation difference) between the score on the ability measure and on one of the seven achievement areas. If there is a severe discrepancy, the evaluation must also determine that the discrepancy (1) is not due to physical handicaps, emotional disturbance, mental retardation, environmental, cultural, or economic disadvantage, (2) that it adversely affects educational placement, and (3) there is evidence the child has been provided learning experiences appropriate to the ability level. If the evaluation team decides that a child does have a learning disability, although a severe discrepancy does not exist statistically, then the team must prepare documentation to demonstrate that there is a disability.

Iowa, which adopted more specific regulations defining learning disability in September 1981, reduced its learning disabled population by 8.6 percent within three months. The new regulations defined a severe discrepancy as a 1.5 standard deviation difference between scores on an individually-administered ability measure and an achievement test. A recent study of the learning disabilities program in Colorado indicated that 59 to 74 percent of the students identified as having a learning disability "did not fit the legal definition or the definitions in the professional literature, but were better

characterized as having an emotional disturbance or language interference, or were simply slow learners." In Maryland and in New York, enforcement of existing State and Federal regulations resulted in a drop in the number of students found eligible for learning disabilities programs.

California's lack of specific eligibility criteria--the effects

In 1977 the Department of Finance recommended that the State Department of Education define the characteristics of pupils eligible for Special Education Programs, including the Resource Specialist Program. In 1979 the Department of Finance requested the current status of the Department of Education's implementation of this recommendation and was assured the regulations would soon be forthcoming. Not until March 2, 1983 were regulations written and in force.

In California, the failure of the State Department of Education over the past six years to adopt regulations defining the criteria to be used to complete the placement of pupils into the Resource Specialist Program has apparently led to an expansion of the number of "grey area" pupils served by Special Education. Over the years, the lack of comprehensive guidelines and regulations on eligibility for Special Education has led to a situation in which pupils throughout the State with identical problems may receive widely varied placement and services from Special Education and regular education. Placement into some special education programs, particularly those designated for

students as mildly handicapped, seemed to be based more on the child's performance relative to peers at the local school rather than upon the application of an assessment process used consistently throughout the State.

The SRI study team analyzed characteristics of students in learning disabilities programs in California in 1980-81 (the most recent year available) and applied different assessment models to determine how many of those students currently identified would be eligible using the different criteria. Using only the standard of achievement scores one-half year below grade level, 18 percent of Hispanic students and 33 percent of non-Hispanic students currently served would be ineligible. Applying the strictest criteria (IQ scores at or above 85, significant difference between Verbal and Performance IQ scores, and performance one-half year below grade level), only 61 percent of Hispanic and 32 percent of non-Hispanic students now served would be eligible. Even these low proportions should be significantly reduced if other causes of poor academic performance were screened for during the assessment process. We conclude that many California school children are being inappropriately labeled as handicapped.

In the absence of eligibility standards for Special Education, individual districts have tended to move to the percentage limits on participation by type of instructional setting, and to the overall participation limitation of 10 percent of enrollment. Districts with vastly different characteristics and populations -- even those with very high socio-economic levels, which experts predicted would lead to

a lower participation in Special Education -- tend to use their full entitlements to provide services for their pupils, especially their entitlement to the Resource Specialist Program. This means that the pupils admitted to the Resource Specialist Program in a high socio-economic status district are much different pupils than those admitted in a district with low socio-economic status pupils. Figure 2 graphically illustrates how performance on the California Assessment Program increased among pupils enrolled in Learning Disability Groups or Resource Specialist Programs as the socio-economic status of the school increased.

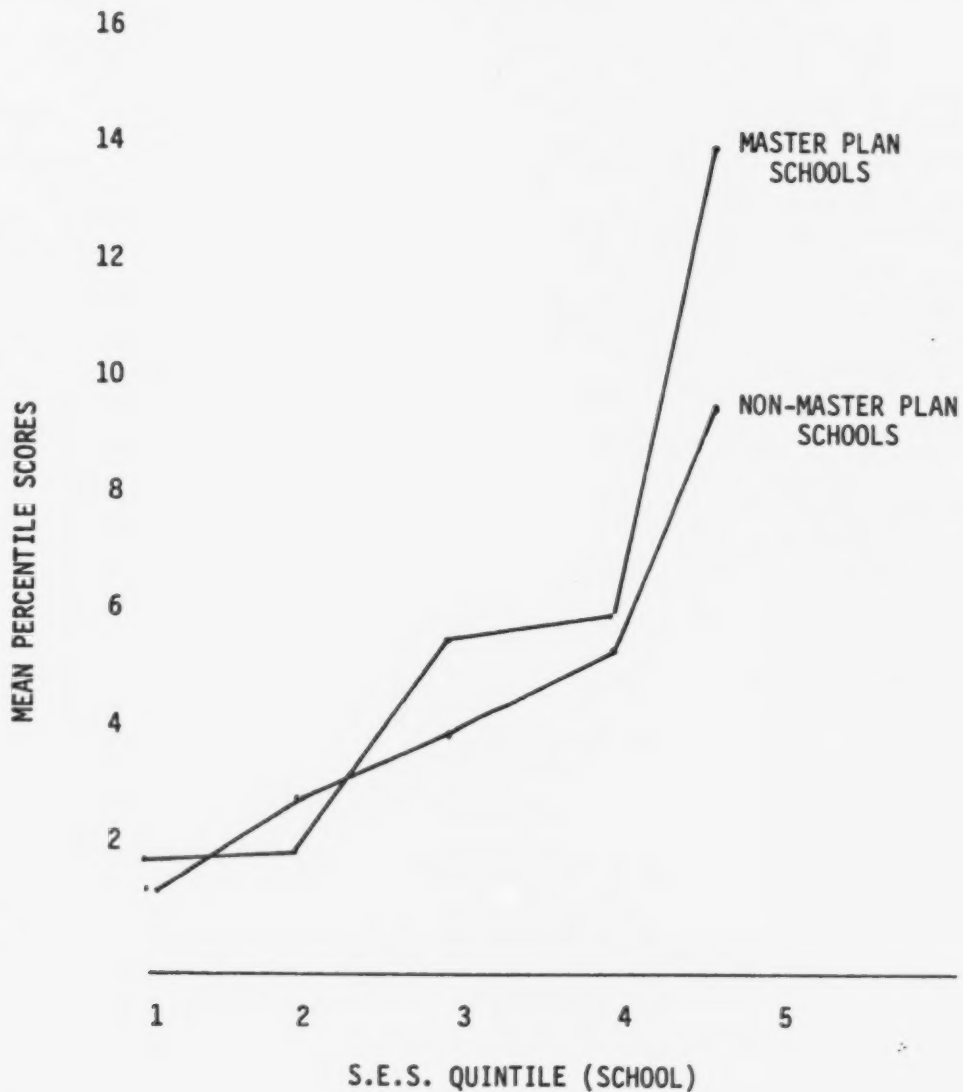
In the field, the study team found general agreement that even within large school districts, the actual selection process utilized for the Resource Specialist Program was such that pupils who were "appropriately" placed in the Resource Specialist Program at one school would never even be considered for placement at another school because their achievement levels were too high compared to the average achievement at the poorer school. The present "system" appears to be able to operate primarily because there is very little mobility between economically disparate schools, so that the comparability of placement standards at different schools is rarely an issue.

The Confusion about Learning Disabilities

The need for specific eligibility criteria, consistently applied on a statewide basis, is especially important in the identification of learning disabilities. Currently, there is no agreement among

FIGURE 2

MEAN PERCENTAGE SCORES OF EDUCATIONALLY
HANDICAPPED PUPILS ON THE STATE
ASSESSMENT TEST, BY SCHOOL
SOCIO-ECONOMIC STATUS QUINTILE--GRADE 3--
FOR 1978-79



Source: California State Department of Education

researchers and practitioners as to the existence, definition, assessment, or remediation of learning disabilities. This confusion allows for inaccurate identification of learning disabilities in children as well as overestimation of the incidence of learning disabilities in the population. Several researchers in this area have spoken to this issue.

The difficulty of defining what constitutes a learning disability was the subject of a recent issue of the Journal of Learning Disabilities (January 1983).

Surveys were sent to 250 leading learning disabilities professionals nationwide. Although 83 percent of the 149 respondents believed that 'learning disabilities' is a viable classification for handicapped children, there was considerable variation in estimating the incidence of learning disabilities in school-age children. While one-fifth of the sample estimated the incidence at one percent or less, an equal number of respondents estimated the incidence to be 10 percent or more. Survey comments from the respondents illustrate the definitional confusion over learning disabilities:

"Despite its ambiguities, the term does bring focus to a set of children not well served by other classifications."

"Learning disability is currently, in my opinion, a category of services rather than a category of children. It means different things in different places, and stringency of definition depends more on availability of resources to serve children than on a philosophical commitment to a given definition of LD."

"I see no useful reason to classify children as LD; as a classification, it is ludicrous. Plenty of children demonstrated similar diagnostic characteristics to those which are the basis for calling a child LD."

Ysseldyke and Algozzine, two researchers who have done extensive work on the learning disabilities issue, have discussed the definitional problem in the following terms:

"For any categorical approach to definition of a concept to make sense, the conditions of any classification system must be met, that is, universal and specific characteristics must be evident in the phenomena being studied. To build a diagnostic system using 'green' as the inclusionary/exclusionary criterion would be of limited value in the scientific classification of trees. We have failed to identify the characteristic(s) which is universal and specific to LD...in a study of the psychometric characteristics of LD and non-LD students, we found large degrees of overlap on 49 psychometric test scores...others are reporting similar results." (Emphasis added)

Because of the inability to define what a learning disability is, there has been a resulting inability to accurately assess whether or not a child is learning disabled. Based on their series of studies conducted at the Institute for Research on Learning Disabilities at the University of Minnesota, Ysseldyke and Algozzine offered these conclusions about the assessment decision-making process.

1. "The most important decision that gets made in the entire assessment process is the decision by a regular classroom teacher to refer a student for assessment." Nearly three-quarters of the students who are referred are placed in a special education setting, according to a national survey of Directors of Special Education.
2. "Very many non-handicapped students are being declared eligible for special education services. When we provided decision-makers with

test information about students, and when all data indicated normal test performance, more than half of the decision-makers declared the normal student eligible for special education services.

3. "The identification of a student as handicapped depends on the criteria used. When we applied several commonly used definitions of LD to normal students, over 75 percent could be labeled LD. When we applied the same criteria to school-identified LD students, about 25 percent could not be classified LD.
4. "Those who advocate clinical judgment in making eligibility decisions about students are going to have to rethink their position. Given profiles of scores on psychometric measures, we found that psychologists and special education teachers were able to differentiate between low-achieving students and students labeled learning disabled with only 50 percent accuracy. Naive judges, who had never had more than an introductory course in education or psychology, evidenced a 75 percent hit rate.
5. "Placement decisions made by teams of individuals have very little to do with the data collected on students. We were able to demonstrate that the decisions that are made are more a function of naturally occurring pupil characteristics than they are data-based."

Petersen and Hart evaluated the State of Utah's system for identifying educationally handicapped children using multiple discriminant function analysis. They used the assessment information (ability and achievement scores, parent and teacher questionnaires, measure of achievement delay) upon which the diagnosticians based

their classification decisions (mentally retarded, learning disabled, emotionally handicapped, slow learner, culturally disadvantaged, no significant problem) to predict concurrently the classifications which the diagnosticians actually made. Overall, the clinical and statistical diagnoses matched in 61 percent of the cases. When the data were corrected for antecedent probabilities of group membership, the "hit rate" dropped to 52 percent. Within the different diagnostic classifications, the results indicated that the 'mentally retarded,' 'culturally disadvantaged,' 'slow learner,' and 'no significant problems' groups could be efficiently identified statistically...the other two classifications of 'learning disabled' and 'emotionally handicapped' could not be efficiently identified statistically and the consistency of standards employed for those classifications was questioned." They found that only 31 percent of the students identified as learning disabled by the diagnosticians could be classified as learning disabled based on the assessment data.

In light of these definitional and assessment problems, the need for clear direction from the State Board of Education in the identification of learning disabilities should be obvious, but the recently adopted eligibility standards developed by the California State Department of Education may not do enough to promote consistency of assessment and thus to insure that children with similar learning problems are treated equally. Under the new regulations, a student is eligible if he or she "has a disorder in one or more of the psychological processes involved in understanding or in using language, spoken or written, which may manifest itself in an impaired ability to

listen, think, speak, read, write, spell, or do mathematical calculations, and has a severe discrepancy between intellectual ability and achievement in one or more of the academic areas specified in Sections 56337(a) of the Education Code." "Severe discrepancy" is defined as a value equal to or greater than 1.5 standard deviations of the difference distribution between an ability measure and an achievement test. The discrepancy should "not be primarily the result of limited school experience or poor school attendance."

Although the adoption of a 1.5 standard deviation difference between ability and achievement measures would appear to achieve the needed consistency, it is not likely that its application in schools will have any substantial effect. The regulations do not specify appropriate assessment instruments for determining a severe discrepancy, nor do they require an assessment to determine if a "disorder in one or more of the basic psychological processes" exists.

As currently written, there is no restriction on the types of ability or achievement measures which can be used. What may very well result is an approach to assessment which encourages examiners to pick among ability and achievement tests or subtests to come up with the required discrepancy. Using only the two ability tests and three achievement tests listed in the SDE guidelines, there are 40 possible combinations of ability-achievement scores which could be used to qualify a child. The total number of combinations available from the hundreds of different tests now published is effectively limitless and the variation of student performance on the different tests can be

substantial so that it is conceivable a large proportion of the State's school children could be shown to have a "severe discrepancy".

The Department of Education has provided additional guidelines to LEAs clarifying that additional screening is required after the severe discrepancy is established to:

- o Determine if the pupil has a disorder in one of the basic psychological processes.
- o (Establish that) the discrepancy must not be due to factors of environment, cultural differences or economic disadvantage. Also, the discrepancy must not be the result of visual, hearing or motor handicaps, mental retardation, limited school experience or poor attendance.
- o (Establish that) the discrepancy cannot be corrected through other regular or categorical services offered within the regular instructional program.

Department officials have told the study team that they would expect less than five percent of the pupils exhibiting a severe discrepancy to meet the three additional conditions. Assuming that ten percent of the school population had the severe discrepancy, this would mean that only one-half of one percent of the total population would be eligible as being disabled. The study team believes that this outcome is unlikely, however, because local practices often require only the severe discrepancy finding and most districts have Resource Specialist Programs that can serve four percent of their population. An eighty-eight percent reduction in the population served is simply unlikely to occur without strong and explicit guidelines from the State.

Language Disorders

The regulations which set eligibility standards for students with language disorders is so broadly written that a large number of students could potentially be identified. The regulations state that:

"The pupil has a language disorder when he or she meets both of the following criteria:

(A) Using more than one assessment procedure, the pupil scores at least 1.5 standard deviations below the mean, or below the 7th percentile, for his or her chronological age or developmental level on tests in one or more of the following areas of language development: morphology, syntax, semantics, or pragmatics. When standardized tests are considered to be invalid for the specific pupil, the expected language performance level shall be determined by alternative means as specified on the assessment plan, and (B) The pupil displays inappropriate or inadequate usage of expressive language as measured on a representative spontaneous language sample of a minimum of fifty utterances."

By permitting either the child's chronological age or developmental age to be used in comparison with language scores, children whose language development is at a level appropriate to their overall developmental level can be considered eligible because the scores are discrepant from the chronological age. Another difficulty with the criteria are their vagueness. They do not indicate how "inappropriate or inadequate usage of expressive language" is to be assessed. Perhaps more critically, the regulations fail to state explicitly that students whose language development is significantly below expectations for chronological age and whose expressive language is inadequate because of limited English language proficiency are not appropriately identified as having a "language disorder."

Preschool Programs

The criteria for identifying disabilities in children from birth to four years, nine months may lead to an increase in the number of children found eligible in this age range. Because of the moderate to high correlations among tests of cognition, language, motor development, and social development, there is a strong probability that if the child scores between 51-75 percent of chronological age on one test, he/she will score within the same range on a second test and thus be eligible for the program. For example, correlations between the Peabody Picture Vocabulary Test - a measure of receptive language - and cognitive tests such as the Stanford Binet and the Weschler Primary Preschool Scales of Intelligence are on the order of .62 and .58. The correlation between the Vineland Social Maturity Scale and the Stanford-Binet for institutionalized children was reported to be .84. Thus, children scoring low on a measure of language development (Peabody) could be expected to also score low on a measure of cognitive development (Stanford-Binet or Wechsler). Similarly, children scoring low on a measure of social development would also be expected to score low on a test of cognitive development such as the Stanford-Binet. Because of these correlations, the practical effect is to lower the cut-off criteria from 50 percent of chronological age to 75 percent.

Tests used to diagnose abnormal development in infancy and early childhood should be evaluated both in terms of predictive power and error in identification. While assessment tests may correlate better with later performance for impaired infants than for normal infants,

this does not indicate that the assessments are good tests for detecting abnormality. McCall (1972) offers the following cautions:

While the correlations for suspect and clinical populations are high, they must be applied with caution. Often, correlations in the range of .70-.80 for special clinical populations are cited as justification for use of the assessment instrument to screen more randomly selected populations. This is not always practical because of the difference in base rate of abnormality in the clinical versus the random sample. Consider the following hypothetical illustration. Suppose a test correctly diagnoses 90% of the infants known to have mental deficiency while incorrectly classifying only 15% of normal infants as being deficient when two groups of 100 definitely abnormals and 100 normals are studied. This would be regarded as an excellent testimony to the validity of the test. However, when a random sample of 1,000 infants is selected, only 50 of whom are truly deficient, while the test identifies 90% or 45 of the 50 abnormals, it also labels 15% or 142 normals as being deficient. The false-positive rate is tolerable, but the absolute number of false-positives in a randomly selected population would make the test impractical as a screening device.

Caution should be invoked on theoretical grounds. The correlations reported for clinical samples may merely reflect the presence of some subjects whose deficiencies are so marked that there is practically no behavior to assess at either age. Such low scores by "default" can produce sizable correlations in an otherwise variable sample, but they are neither theoretically nor practically interesting. Consequently, infant tests in concert with other assessment techniques may have value in detecting neuromotor abnormalities, but sole reliance on the test in applied clinical situations must be tempered by the size and source of the correlations as well as by considerations of base rate. (p. 730)

Standardized Procedures are Needed

The regulations indicate that if standardized tests are considered invalid, other means of identifying the discrepancy may be used. In light of the inconsistencies which have been reported when "clinical judgment" is substituted for a specified assessment battery, it would

seem prudent to limit the use of alternative assessments so that the procedure is not used routinely to accept children into special education who would not be eligible using standardized criteria. This need for restriction is even more important since interviews conducted recently with school district staff responsible for assessing children have indicated that the new testing criteria were likely to be interpreted differently. Some staff indicated that they looked at discrepancies among subtest scores of an ability instrument or at the discrepancy between a child's grade level and his/her achievement in determining eligibility.

One of the dangers in the SDE approach is that there is little published information, either in testing manuals, standard reference guides, or the research literature on the psychometric properties of the combination of different abilities and achievement instruments. By allowing districts to select any tests instead of restricting tests to those whose properties are well documented and those which are regularly referenced in the learning disabilities literature, SDE has forfeited its responsibility to provide consistent criteria.

At a minimum, only those tests which meet criteria specified in the Standards for Educational and Psychological Tests (1974) compiled by the American Psychological Association, American Educational Research Association, and the National Council on Measurement in Education should be used. (Several Supreme Court cases dealing with testing have referred to the Standards in describing the technical, psychometric

properties of tests). The Standards indicate that tests should be used only if they state the purpose and application, have been revised within the past 15 years, state the qualifications necessary to administer and interpret the test, and give specific information about test reliability and validity.

The study team was told by many local school officials that the State could enhance the usefulness of definitions and regulations through the use of suggested or model programs for typical types of handicapped pupils. This would involve descriptions or profiles of typical pupils with handicapping conditions, ranging from mild to severe, and examples of appropriate Special Education placement. Such typical programs should "tie-back" to the resources for Special Education made available by the Federal and State governments and local districts and should also include some guidance as to when a particular form of remediation or Special Education should be terminated if there is no progress on the part of the pupil.

Program Coordination

Many of the pupils receiving Special Education services are also eligible for and receive services from a variety of other "special" educational programs such as compensatory education. The study team found that district and school recognition of this fact varied widely, as did actual coordination practices. Some districts prohibit multiple services, while others encourage the practice and still others seem to ignore the question.

In 1979 (the most recent year for which data are available), 24 percent of the third grade pupils receiving compensatory education (Chapter I/State Compensatory Education) services also received services from at least one of the following programs:

- Migrant Education	2.5	percent	overlap	of	participants ^{6/}
- Miller-Unruh Reading	7.1	"	"	"	"
- Indian Education	0.3	"	"	"	"
- Educationally Handicapped	2.2	"	"	"	"
- Bilingual Education	14.0	"	"	"	"

Third grade pupils are more likely than most other pupils to be receiving categorical program services, since many programs emphasize early intervention. The program overlap for all Special Education enrolled pupils is certainly in excess of the 2.2 percent for Educationally Handicapped pupils, but the precise number is not available. Areas under the Master Plan for Special Education had a higher incidence of overlap--28 percent.

While the consolidated application process does encourage articulation in some programs, there are no State or Federal standards or procedures available to schools concerning articulation for other categorical programs, a problem which is especially acute in the areas of Special Education, Chapter I and Bilingual Education. These three programs seem duplicative within most school districts, much as they do at the Federal level.

^{6/}The percentages add to more than 24 percent because some pupils received services from three or more programs.

The principal reasons for this appear to be:

- Chapter I/State Compensatory Education (SCE) and Federal/State Special Education legislation has been written as if each program served a distinct group of children. In fact, many children are eligible for, and receive services from both programs. The study team was told in many schools that many children who are served by Chapter I/SCE would be served in Special Education at a school without Chapter I/SCE.

In many cases the Chapter I/SCE program and Special Education Program have the same primary purpose of remedial education in basic skills and offer the same type of service -- pull-out tutoring in small groups. However, the placement procedures for the Chapter I/SCE program are much simpler and less expensive -- and invasive -- than those imposed by Special Education.

Coordination of the program received by pupils served by multiple categorical programs often depends upon the regular classroom teacher. It is possible for a pupil to receive instruction in different reading modalities from classroom, reading, and Special Education Programs. Some, but not all, districts and/or schools have policies on the total "pull-out" time that each pupil is permitted, since at schools with many categorical programs a pupil can end up with so much pull-out time that there is no meaningful "regular classroom" program.

- Chapter I, Special Education and bilingual education programs are not standardized. School districts, and schools within districts, have enjoyed considerable latitude in the design of these programs, within certain overall rules and funding constraints, and any articulation procedures are generally ad hoc. While Special Education Programs have reasonably uniform admissions criteria for the most severely handicapped pupils, other programs -- chiefly the Resource Specialist Program which can enroll 40 percent of State funded Special Education pupils -- tend to enroll very dissimilar pupils across the State and even within school districts. The child tends not to be compared to statewide criteria, but rather to be evaluated in the context of each school's student body.

During the study team's visits to schools, we found that the actual instructional activities taking place in Resource Specialist Programs, small group instruction provided by Designated Instruction (DIS) staff and other categorical programs were usually very similar -- varying more by school and by instructor than by the formal "title" of the program -- and that in the main they were providing remedial training in basic skills. We saw evidence that children were being helped by all such programs; individual and small group instruction does seem useful for some children at some times, whether provided in the regular classroom or in a categorical "pull-out" program. Our

findings and conclusions are consistent with those of Coles, written in Harvard Educational Review in 1978:

Without question, many youngsters have been diagnosed as learning disabled and have worked with clinicians and teachers who have demonstrably improved their academic abilities. But it is not evident that this improvement was the result of anything more than the proper application of the remedial techniques themselves and sympathetic treatment of the children and the specific symptoms they might have. These techniques have been and are now being used successfully with children in remedial clinics, regardless of the causes of their failure to learn. Within this process, it has yet to be demonstrated that certain remedial techniques work better for learning-disabled retarded readers than for non-learning-disabled retarded readers, or vice versa. The same may be said for published remedial materials. It might well be that the remedial techniques used for a specific academic problem actually treat a neurological dysfunction that is causing the problem and that the techniques are equally successful, whatever the cause, but this remains a hypothesis. What is more certain is that the success of learning-disabilities specialists in remedying the problem results from their ability to use general remedial techniques and not from their special knowledge of neurological dysfunction.

Resource Specialist Program

The Resource Specialist Program represents the only significant new Special Education service delivery setting under the Master Plan. Under the provisions of SB 1870 (1980), up to four percent of a district's enrollment can be funded to participate in the Resource Specialist Program. The Resource Specialist Program is discussed in this section because interviews in the field indicate that it is probably the placement setting most in need of eligibility standards.

The Resource Specialist Program was designed to provide a school site Special Education setting in which pupils could spend less than half of their school day receiving Special Education services from a certificated Resource Specialist and a full-time aide. The Resource Specialist Program "replaced" the Learning Disability Group program. Many of the current Resource Specialists are former Learning Disability Group teachers and over 95 percent of the pupils enrolled in the Resource Specialist Program are learning handicapped. The Resource Specialist also provides a trained Special Education person at the school site level who can provide parents and school staff with information and consultation on the nature and needs of handicapped children.

As was discussed earlier, the lack of consistent placement standards for the Resource Specialist Program means that the likelihood of a given pupil's placement into the Resource Specialist Program is heavily influenced by the socio-economic characteristics of the school site, including the availability of compensatory education programs. The study team found that schools with compensatory education programs tend to use the Resource Specialist Program after trying the pupil in compensatory education programs. Among other issues, this raises the question of coordination among programs. We found cases in which a pupil had gone through complex and expensive Special Education assessment procedures to receive an hour daily of Resource Specialist time (or a weekly one-half hour of speech services), but was also pulled out of the regular class for up to two hours daily to attend

compensatory education laboratories with no formal "assessment" or documentation required. This raises questions concerning the apparent narrow focus of the Special Education assessment and placement procedures which do not seem to recognize that Special Education is but one variable in the complex nature of our public schools.

Recommendation #4: The Department of Education should adopt clear, consistent standards with a limited number of approved testing instruments, for placement of children into Special Education Programs. Such standards should include some form of typical program outline such that the individual with exceptional needs, requiring Special Education services, will receive similar services regardless of where they reside in the State and regardless of what particular school within a district they may happen to attend. Such standards should include an explicit definition of when students are appropriately served by compensatory education or remedial programs within the school, rather than, or in addition to, Special Education Programs.

The issue is not whether or not there are students in our public schools who are not learning: we know that there are far too many such children. The issue is defining the responsibilities of regular education and its categorical partners. It is all too "easy" for "regular education" to suggest that children who are not learning are someone else's responsibility, that poor teaching, student motivation, or social and economic factors are not the problem, but rather that it

is a "Learning Disability" that prevents children from achieving all that they might. This issue was discussed in the SRI study:

For whatever reason, whether they have a specific learning disability or are simply slow learners, they are not performing as well as teachers or parents think they should and probably need special help in reading or math. The question, from a policy point of view, is not whether these students need special help but whether the help should be provided through special education programs or whether their needs can be met adequately through other programs such as bilingual education, Title I, remedial reading, remedial math, or the School Improvement Program (SIP).

Certainly, for each student that can adequately be served in a program other than special education, the cost of comprehensive assessment and due process procedures required by special education regulations can be avoided. However, on the issue of definition and eligibility, there will continue to be professional disagreement about whether a poor reader has a specific learning disability or is simply developmentally slow in learning to read.

As we have discussed, there is much disagreement among people who are considered learning disability experts as to the nature (or even the existence) of learning disabilities. Given that disagreement, the State should consider whether other program options are available which could provide the types of remedial services needed by pupils at a lower cost and avoid the need to label these children as handicapped.

A Proposal for Change

The Governor's Budget for 1983-84 includes a proposal to merge certain categorical education program funding into block grants to school districts. The objective of this proposal is to increase the funding actually reaching children in their classrooms by decreasing the State required paperwork and supervision.

Recommendation #5: The Department of Finance proposes that the Department of Education and the Legislature consider placing Special Education funding for nonseverely handicapped children into a block grant.

One of the greatest difficulties in designing Special Education eligibility standards has been the fact that Special Education Programs serve the same role as do many remedially oriented programs -- including some categorically funded. Some Special Education Programs are intended to serve children with learning problems just as categorically-funded programs are designed to serve children with learning problems. Instead of directing time and resources to attempting to diagnose the source of those problems -- learning disabilities, visual perceptual dysfunctions, auditory processing deficits, sociocultural, environmental, or economic problems -- it may be more prudent to direct those limited resources, and the energies of school staffs, to remediating the learning problem rather than trying to determine precisely what caused it. This proposal would greatly increase the flexibility available to local educators in meeting the educational needs of their communities and would permit much of the time and energy that teachers now spend on paper to be directed toward helping people.

As was discussed above, the Department of Finance does not believe that the eligibility standards now in effect will result in equal access throughout the State to the remedial type of program funded by Special Education. The best solution may be to restrict service based Special Education excess cost funding to those children who meet

strict eligibility criteria and who are, for the most part, served in special day classes. We propose that the balance of Special Education funding, after the State's share of the excess costs of serving the severely handicapped population has been met, be allocated to all of the State's school districts to provide special/remedial education services to pupils selected by school districts as needing such services.

This proposal would permit districts to utilize all available funds to design comprehensive services and programs to meet the locally defined educational needs of local student populations. As we explained (Page 62), there are currently many pupils served by two or more separate categorical programs, including Special Education. The educational progress of such pupils may be disrupted by multiple "pull-outs" and curriculum variations from the "regular" educational program.

In addition, the present system provides widely varying dollar amounts of support for each "categorical" pupil depending upon the program in which he or she is served. The highest support -- about \$2,000 per year on top of the basic Revenue Limit -- is required by the Resource Specialist Program. Under this proposal, districts could choose to serve more children with less expensive programs or to take other steps to increase the coordination of programs and personnel.

It is our intention that local school officials and teachers be able to use the total block grant to design a unified program which will provide the maximum amount of extra help to the greatest number of pupils.

Recommendation #6 The State should require only that:

- o Local school districts continue to serve, and to protect the rights of, handicapped children.
- o Block grant resources be used for programs supplemental to, and not to replace, the Revenue Limit funded regular education program.

CHAPTER IV

CONCLUSION

California has been a leader in providing education for handicapped youngsters throughout the years, and our State Master Plan for Special Education preceded -- and provided a model for -- the Federal effort in this area. Unfortunately, the widespread support which Special Education has enjoyed has drawn attention from the fact that the State Department of Education has not established adequate management control over this program which reports costs of \$1.4 billion per year. In fact, because of the failure by the Department of Education to issue rules on costs allocated to the program, State Special Education funds may be supplanting other State funds for regular school programs.

It is not uncommon to find that problems emerge in programs that change and in programs which experience rapid growth. In recent years Special Education has done both. The recommendations and other findings in this report are intended to assist the State in meeting its goal of providing appropriate services to handicapped youngsters, while ensuring the public that these programs are administered as efficiently and economically as possible -- a responsibility which is even more important considering the State's present financial straits.

The report suggests that the costs of Special Education grew more rapidly than was anticipated and planned for by State policy-makers. In part, this may represent a shift of costs from the local entities to the State, or, should a deficit factor be applied to Special Education apportionments, among the local entities. Special Education is costly and it is now the right of handicapped children. The State must balance the necessary costs with the services needed and required under the law. The study team suggests that the 50 percent support cost ratio in Special Education, costing nearly \$500 million in 1980-81, is a better place to look to for cost savings than the funds providing direct services to children. To find these savings the State must first establish clear rules for the field specifying who can be served by special education, what they can be provided and how much the State will pay for. Only then can we know the actual costs of Special Education and its administration.

A basic finding of this report is that there is not adequate coordination among the various education programs which serve the State's schoolchildren. Special Education, while coordinating many of its own activities, is not adequately coordinated with the gamut of other programs and services available in our schools. This is at least partly attributable to the failure of the State Board of Education to make clear just whom Special Education is to serve, but also results from the "program" orientation of most educational entities. The real "coordination" of programs often seems to take place not with trained

administrators, but on an ad hoc basis by school classroom personnel who cannot be expected to be expert in the statewide goals or role of individual programs, but simply work out ways to get assistance for the pupils who are their concern.

California has made great progress in its programs for handicapped children. Parents, public officials and educators have worked to design a system which is a model for the entire nation. The strengths of our system should be emphasized and the weaknesses addressed so that the system can continue to refine its services and better serve the handicapped children of the State in the years to come. Hopefully, this will take place in an educational system which has clear and consistent coordination among all of the educational programs which serve all of the State's pupils--including the handicapped.

APPENDIX A
THE MASTER PLAN FOR SPECIAL EDUCATION

Special Education serves pupils under the age of 22 who, because of physical, emotional, or mental impairments, are unable to benefit fully from regular classroom instruction and must have special equipment, special staff services, or special learning environments. The term "education", as it is used here, is not necessarily synonymous with intellectual development. Often, education for children who are severely handicapped takes the form of training these children to speak, feed, and dress themselves.

Historical background

The State's first Special Education Program began in 1860 with the establishment of a residential school for the deaf in San Francisco. Between 1860 and 1940, Special Education in California gradually expanded as the Legislature authorized school districts to establish education programs for deaf, blind, mentally retarded, speech handicapped and physically handicapped pupils. Although the State reimbursed local districts for part of the "excess costs"^{1/} of Special Education, relatively few school districts established

^{1/}The excess cost of educating a handicapped pupil is the difference between the full cost of educating that pupil and the average cost of educating a pupil in the regular school program.

classes for the handicapped until 1947, when the Legislature required school districts either to provide programs and facilities for physically handicapped children or to contract with other districts for the provision of these services. The law also required school districts and county superintendents of schools to provide programs for mentally retarded minors.

The next major change in the State's system of Special Education came in 1963 when the Legislature authorized school districts to establish programs for the Educationally Handicapped. These programs were originally intended for students who were at least two years retarded in their school work^{2/} and students with severe behavioral problems, but were later expanded to include children with severe emotional disturbances.

In 1965, the Legislature authorized county superintendents of schools to establish permanent development centers for handicapped minors. The development centers for the handicapped were designed for severely mentally retarded, physically handicapped, and multihandicapped children who, without the program, would have been either institutionalized or without educational programs altogether.

Current Special Education Programs

The State's present Special Education Programs may be grouped broadly as follows:

^{2/}California Legislative Analyst, The California System of Special Education Programs for Exceptional Children, Sacramento, January 8, 1968, page 10.

1. State special schools for the deaf, blind, and neurologically handicapped;
2. educational programs for handicapped children in State hospitals;
3. public school programs for the handicapped operated under the Master Plan for Special Education, including development centers for the handicapped; programs for educationally handicapped, physically handicapped, and mentally retarded pupils; occupational training programs for physically handicapped and mentally retarded pupils; and nonpublic school placements.

The State Special Schools

There are currently six State special schools; the California School for the Blind, two California Schools for the Deaf, and three Diagnostic Schools for the Neurologically Handicapped. The schools are designed for blind, deaf-blind, multihandicapped blind, deaf, multihandicapped deaf, orthopedically handicapped and neurologically handicapped pupils whose educational needs cannot be met by their home school districts. The schools provide the facilities and personnel necessary for medical treatment as well as education. The schools for the neurologically handicapped, especially, provide diagnostic services and develop educational plans for the enrolled students.

State Hospital Programs

Under the Department of Developmental Services and the Department of Mental Health, the 11 State hospitals provide medical, custodial, and educational services for the mentally ill and for

developmentally disabled individuals whose needs cannot be met in the community. The educational services are provided for children and adults by colleges and County Offices of Education under cooperative agreements with the State hospitals, as well as by the hospitals themselves.

Public School Programs

The California Master Plan for Special Education, which consolidates the various categorical Special Education Programs in the State, was implemented statewide by SB 1870 in 1980 (Chapter 797). Proponents of the Master Plan maintain that in the past Special Education Programs in the State were developed to satisfy the needs of specific groups of handicapped pupils and that, consequently, many pupils either were placed in programs not suited to their needs or were excluded entirely from these programs.^{3/} The Master Plan is intended to correct this problem by establishing procedures to insure that all pupils who need Special Education will receive the services that meet their individual needs.

The balance of this Appendix is drawn from SB 1870 and outlines Special Education as it is organized under the Master Plan.

The goals of the Master Plan for Special Education include:

- I. Each individual with exceptional needs shall have his or her educational goals, objectives, and Special Education and related services specified in a written individualized education program.

^{3/}California State Department of Education, California Master Plan for Special Education, Sacramento, 1974.

- II. Individuals with exceptional needs will be offered special assistance programs which promote maximum interaction with the general school population in a manner which is appropriate to the needs of both. Pupils will be transferred out of Special Education Programs when Special Education services are no longer needed. The unnecessary use of labels will be avoided in providing Special Education and related services for individuals with exceptional needs.
- III. Procedures and materials for assessment and placement of individuals with exceptional needs shall be selected and administered so as not to be racially, culturally, or sexually discriminatory. No single assessment instrument shall be the sole criterion for determining placement of a pupil.
- IV. Educational programs for individuals with exceptional needs will be coordinated with other public and private agencies, including preschools; child development programs; nonpublic, nonsectarian schools; regional occupational centers and programs; and postsecondary and adult programs.
- V. Psychological and health services for individuals with exceptional needs shall be available to each school site.

Participants in the Master Plan for Special Education are "individuals with exceptional needs" who are identified through assessment as autistic, mentally retarded, deaf, hard of hearing, speech or language impaired, visually handicapped, seriously emotionally disturbed, behaviorally disordered, developmentally

handicapped, orthopedically handicapped, other health impaired, deaf-blind, multihandicapped, or as having specific learning disabilities, including learning disabilities within the function of vision which result in visual perceptual or visual motor dysfunction. These individuals have impairments requiring instruction, services, or both which cannot be provided with modification of the regular school program. Unless handicapped within the meaning of one or more of the above categories, pupils whose education needs are due primarily to unfamiliarity with the English language; to temporary physical disabilities; to social maladjustment; or to environmental, cultural, or economic factors are not "individuals with exceptional needs."

Individuals eligible for participation must come within one of the following age categories:

- I. Younger than three years of age and identified by the district, the Special Education services region, or the county office as requiring intensive Special Education and services, as defined by the State Board of Education.
- II. Between the ages of three and four years and nine months, inclusive, and identified by the district, the Special Education services region, or the county office as requiring intensive Special Education and services, as defined by the State Board of Education.
- III. Between the ages of four years and nine months and 18 years, inclusive.

IV. Between the ages of 19 and 21, inclusive, enrolled in or eligible for a program under this part or other Special Education Program prior to his or her 19th birthday, and has not yet completed his or her prescribed course of study or who has not met proficiency standards. Any such person who becomes 22 years of age while participating in a program may continue his or her participation in the program for the remainder of the then current school year.

"Special education" means specially designed instruction to meet the unique needs of individuals with exceptional needs, whose educational needs cannot be met with modification of the regular instruction program, and related services which may be needed to assist such individuals to benefit from specially designed instruction, all provided at no cost to the parent. Special Education is an integral part of the total public education system and provides education in a manner that promotes maximum interaction between handicapped and nonhandicapped pupils as appropriate to the needs of both.

Special Education provides a full continuum of program options to meet the educational and service needs of individuals with exceptional needs in the least restrictive environment.

Individuals with exceptional needs are grouped for instructional purposes according to their instructional needs. Placement alternatives available in Special Education include:

- I. The Resource Specialist Program, which provides the following services:

- A. Instruction and services for those pupils whose needs have been identified in an individualized education program developed by the individualized education program team and who are assigned to regular classroom teachers for a majority of a school day.
 - B. Provision of information and assistance to individuals with exceptional needs and their parents.
 - C. Provision of consultation, resource information, and material regarding individuals with exceptional needs to their parents and to regular staff members.
 - D. Coordination of Special Education services with the regular school programs for each individual with exceptional needs enrolled in the Resource Specialist Program.
 - E. Monitoring of pupil progress on a regular basis, participation in the review and revision of individualized education programs, as appropriate, and referral of pupils who do not demonstrate appropriate progress to the individualized education program team.
 - F. Emphasis at the secondary school level on academic achievement, career and vocational development, and preparation for adult life.
- II. Designated Instruction and Services as specified in the individualized education program are provided by the regular class teacher, the special class teacher, or the resource

specialist if the teacher or specialist is competent to provide such instruction and services and if the provision of such instruction and services by the teacher or specialist is feasible. If not, the appropriate designated instruction and services specialist shall provide such instruction and services. Examples of these services are language and speech development and remediation, audiological services, mobility instruction, instruction in the home or hospital, adaptive physical education, physical and occupational therapy, vision services and therapy, specialized driver training instruction, counseling and guidance, psychological services other than assessment and development of the individualized education program, parent counseling and training, health-nursing services, and social worker services.

- III. Special Classes and Centers enroll pupils with more intensive educational needs. Special classes and centers enroll such pupils when the nature or severity of the disability precludes their participation in the regular school program for a majority of the school day. Special classes and centers and other removal of individuals with educational needs from the regular education environment shall occur only when the nature or severity of handicap is such that education and regular classes with the use of supplementary aids and services cannot be achieved satisfactorily.

In providing or arranging for the provision of nonacademic and extracurricular services and activities, including meals and

recess periods, each public agency shall ensure that each individual with exceptional needs participates in those services and activities with nonhandicapped pupils to the maximum extent appropriate to the needs of the individual with exceptional needs.

- IV. Nonpublic, nonsectarian school services shall be provided under contract with the district, Special Education services region, or county office to provide the appropriate special facilities or services required by the individual with exceptional needs when no appropriate public education program is available.

Funding: Funding for Special Education is provided by the State to local school districts and Special Education Local Plan Areas which provide Special Education services meeting all the requirements of the Education Code. Subject to some limitations, the State funds the excess cost of Special Education Programs for eligible pupils. The limitations -- which may be waived by the Superintendent of Public Instruction -- include:

- I. No entity providing service can be funded for more than ten percent of its K-12 enrollment. For each service delivery setting the following maximum percentages of K-12 enrollment also apply:
 - A. Special Classes and Centers -- 2.8 percent.
 - B. Resource Specialist Program -- 4.0 percent.
 - C. Designated Instructional Services -- 4.2 percent.

APPENDIX B
ACCOUNTING DEFINITIONS

The following are definitions from the School Accounting Manual of the support items used in the "Supplemental Annual Financial Report" and in Tables 1 and 2.

Instructional administration is the area of responsibility for the improvement of teaching through a program of leadership, guidance, and assistance to aid teaching staff and to improve curriculum and curriculum materials used by teachers. It consists of supervising instruction, developing and improving curricula and curriculum materials, guiding teachers in the use of instructional materials, administering sabbatical leave, providing for inservice training, and so forth.

Instructional Media is the program area consisting of those activities whose purpose is to provide resources to support instruction for a school or a school district. Included in this category are the following: School Library and Audiovisual, Educational Television and Computer Assistance in Instruction.

School Administration constitutes those activities that have as their purpose overall administrative responsibility for a single school or several schools (but not a district). It consists of the activities performed by the principal; operations of the school;

evaluation of staff members of the school; assignment of duties of staff members; supervision of the records of the school; and coordination of school instructional activities with instructional activities.

The Pupil Services Program is defined in the State Accounting Manual as:

Attendance - Attendance includes those activities that promote and improve school attendance of pupils.

Welfare - Welfare includes those activities that assist in the prevention or solution of the personal, social, and emotional problems of pupils involving family, school, and community relationships when such problems have a bearing upon the quality of the schoolwork of pupils.

Guidance - Guidance includes those activities that help pupils assess and understand their abilities, aptitudes, interests, environmental factors, and educational needs; assist pupils in understanding educational and career opportunities; and aid pupils in making optimum use of educational and career opportunities through the formulation of realistic goals.

Counseling - Counseling covers those activities that supplement the school system reservoir of information identifying the individuality of each pupil, his or her capacities, achievements, interests, potentialities and needs; study the individual pupil experiencing acute problems of educational development to furnish diagnostic information; and suggest programs concerning the psychological aspects of these problems.

Health - Health covers those activities that provide physical and mental services not directly instructional, such as medical, dental, psychiatric, and nursing services.

District Administration Program is defined in the State Accounting Manual as:

Administration by the Office of the County Superintendent and the District - Those activities that have as their purpose overall general administrative responsibility for the entire county superintendent's office or school district are classed as county/district administration. Direct charges to this program include payments to and on behalf of governing board members and staff; salaries of the superintendent; deputy, associate, area, and assistant superintendents; business managers; personnel directors and directors of pupil services for the general direction and management of all affairs of the school district.

Maintenance Program is defined in the State Accounting Manual as:

Maintenance includes those activities that are required to repair, restore, or renovate school property, including grounds, buildings, and equipment.

The Operations Program is defined in the State Accounting Manual as:

Operations are those housekeeping activities concerned with keeping the physical plant open and ready for use. Included are cleaning and disinfecting; heating and lighting; communications;

maintenance of power; moving of furniture; caring for grounds; garbage and trash disposal; laundry and drycleaning service, including the rental of towels; and such other housekeeping activities as are repeated somewhat regularly on a daily, weekly, monthly, or seasonal basis.

The Pupil Transportation Program is defined in the State Accounting Manual as:

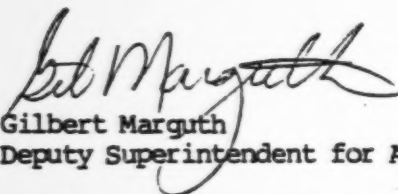
Pupil Transportation means the conveying of pupils to and from school activities, either between home and school, on trips to school activities or between schools.

Memorandum

To : Richard L. Cutting, Chief
Program Evaluation Unit
Department of Finance

Date : June 8, 1983

File No.:

From : 
Gilbert Marguth
Deputy Superintendent for Administration

5-8950

Subject: COMMENTS ON DRAFT COPY OF DEPARTMENT OF FINANCE REPORT ENTITLED, "THE CALIFORNIA MASTER PLAN FOR SPECIAL EDUCATION--AN UPDATE"

Department staff have had an opportunity to review the draft report and in general feel that it addresses a number of issues which are germane to the current policy discussions and legislative considerations involving special education programs and financing. Clearly, there are a number of well known problems in special education--particularly with respect to the funding model. In fact, numerous reports over the last one and one-half years have documented these problems. The most comprehensive of these efforts were performed by (1) the Special Education Commission; (2) a Technical Task Force convened by former Superintendent Riles, and (3) a legislative staff group authorized by section 28 of SB 769/1981. The draft report, although not as comprehensive as the three efforts enumerated above, appears to further document selected problem areas.

Several critical problem areas, however, were ignored in this report. Specifically, the Legislature has repeatedly failed to provide the level of funding required by statute. This failure is evidenced by deficits between statutory entitlements and appropriations, and reductions to the cost-of-living adjustments (COLAs) required by law. Regardless of the arguments presented in this report about the "reported costs" of special education, local agencies have had to absorb a \$92 million entitlement deficit in fiscal year 1980-81, \$37 million in fiscal year 1981-82, and \$62 million in the current year. And bear in mind that these deficits occurred despite entitlements which were artificially held down by limiting COLAs in the Budget Acts of 1981-82 and the current year to less than would have been allowed under statute.

Notwithstanding the comments in the previous paragraph, the following summarizes the Department's general reaction to each of the six specific recommendations made in the report as well as comments on the analysis supporting each of the recommendations.

Department of Finance Recommendation #1:

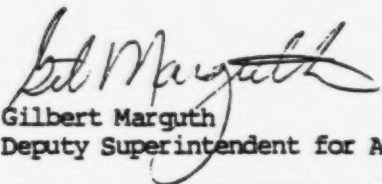
A review and decision regarding the continued use of the J41A and J73A for cost determination must be made because of the findings that costs were reported in such an inconsistent fashion by different education agencies that serious questions must be raised concerning the appropriateness of continued State funding of Special Education on the basis of these cost reports.

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The Department is somewhat confused by the notion of "continued use of the J41A and J73A for cost determination" and the implication that "continued" reported costs have some relationship to special education funding. In fact, the use of reported costs in funding special education pertain only to fiscal year 1979-80; reported costs in subsequent years are irrelevant to funding special education entitlements.

Also, it is important to note that this report uses the term "encroachment" in a very specific fashion, that is, to mean the difference between a district's revenues available for special education and the district's reported costs of special education (as reported on the J41A and J73A). While that definition may be useful under some circumstances, a far more common usage of the term is to describe the local contribution which is required for special education (EC 56750 et.seq.) plus the deficits resulting from underfunded entitlements (as opposed to costs).

The problems associated with the use of the 1979-80 J41A form for determining special education support costs are well known to everyone familiar with special education financing. However, subsequent legislation has so drastically reduced the potential for excessive support service entitlements that the validity of the 1979-80 J41A is no longer a relevant issue in many cases. When SB 1870 was enacted in July 1980 (Chapter 797/80), the Legislature recognized the potential for overstating support service entitlements; therefore, local general fund contributions (LGFC) were calculated in such a way that higher support rates always produced higher LGFC. Subsequently, when special education incurred the first of a series of program deficits, the Legislature made substantial reductions in support services by: (1) limiting indirect cost charges to 4 percent (EC 56732) and (2) capping support service ratios which were above the state average and squeezing them down to the average (EC 56737). The combined effect of these actions has been to drastically reduce support service entitlements (almost \$70 million since 1980-81) and in many cases eliminate any relationship between current support service entitlements and the cost of special education programs reported on form J41A in 1979-80.

In light of the significance of these changes (particularly the squeeze imposed by SB 769,) it is of little value to recommend that the J41A not be used for "cost determination." The more relevant issue today is how should support service entitlements be calculated. Quite possibly funding for these services should not be based on actual costs at all. A number of alternatives have been discussed at length. In fact, AB 1773 (Papan) which is currently being considered by the Legislature, offers a viable alternative. This measure computes support entitlements on the basis of a standardized model which, with adjustments, is applied to all providers which operate similar classes (i.e. SDC, RSP, DIS).

Finally it should also be noted that form J41A is primarily a management information tool for local school districts and county offices. In this regard, it is important that local districts (management) have sufficient flexibility to reflect the allocation of costs that most accurately represent their operations and management philosophy. The California School Accounting Manual provides flexibility to accommodate these differences while still

providing reasonably comparable data across districts. Thus, many of the district-to-district differences noted in the report are allowable—both in 1979-80 and currently. To the extent that more uniformity in reporting is needed, the Legislature should direct it. To the extent that districts are not adhering to accounting policies set forth in the manual, the Department of Finance's Financial and Performance Accountability Unit which is primarily responsible for providing CPAs with audit instructions should include this area in its instructions. (Please see our comments on Recommendation #3 for more details.)

Department of Finance Recommendation #2:

Regardless of the funding model adopted for Special Education, the Legislature should consider identifying the amounts that are incorporated into the basic Revenue Limits for school districts as a result of Special Education override taxes in existence in the 1972-73 base year and dedicating that income as Special Education Revenue.

While it is true that prior to 1972 some number of school districts utilized override taxes for funding a portion of their special education program, the number and magnitude of the changes in school finance as well as the special education program over the last 10 years have eliminated any link between the two. Over the years numerous changes have been made, on an almost annual basis, to district revenue limits because of Proposition 13 and the Serrano decision. As a result, it is highly unlikely that the current benefit of the 1972 action of rolling special education override taxes into district base revenue limits is anything but minimal. Further, from a technical point of view, it would be virtually impossible to track these funds through a fiscal system that has undergone so many major changes.

Department of Finance Recommendation #3:

The State Department of Education should be required to adopt clear and consistent standards for the accounting of expenditures in Special Education programs. The intent of these standards should be to ensure that similar programs operating throughout the state will report similar expenditures, that they will demonstrate similar effort, and that any changes reflect actual changes in the program rather than allocational changes. The Department of Finance suggests that these accounting changes be based upon a direct excess cost approach. Only those costs of operating Special Education programs which clearly would not exist in the absence of Special Education programs would be appropriate charges to these programs.

This recommendation raises a number of issues which need to be addressed. First, the Department strongly supports the need for sound accounting practices—not just for special education, but for all programs operated by school districts and county offices. These procedures along with specific Education Code requirements are set forth in the California School Accounting Manual which is developed by the Department of Education in close cooperation with the California Association of School Business Officials and approved by the State Board of Education in accordance with Education Code Section 41010:

"The accounting system used to record the financial affairs of any school district shall be in accordance with the definitions, instructions, and procedures published in the California School Accounting Manual as approved by the State Board of Education and furnished by the Superintendent of Public Instruction. No accounting manual so approved shall expressly or by implication affect the content of any educational program or objective, except as otherwise specifically provided for by this code. The Legislature hereby finds that such content shall be best determined by those involved in the administration of educational programs, including school district governing boards, local administrators, teachers, students, and parents."

Traditionally, this manual receives a significant amount of attention and review as it is amended to reflect the changing accounting needs of schools as well as new law. However, determining the degree to which this manual is followed by local school districts is primarily the responsibility of CPAs who under law (EC 41020) must annually audit local school district financial statements in accordance with audit guidelines established by the Department of Finance (EC 41020.5).

Secondly, it is important to understand the relationship between the accounting manual policies and the determination of special education costs for the purposes of computing the support service entitlement. Among the policies set forth in the accounting manual are various ways of allocating direct support charges, each of which is acceptable from an accounting point of view. Districts are free to select the method which most accurately reflects their situation from among the list of approved methods. To the extent that districts elect to use different methods from among the approved set, their costs will differ—in an acceptable way. Department of Finance staff have long contended that this variation is inappropriate for determining special education costs and have urged the Department to retroactively exclude certain options otherwise available to districts for allocating direct support costs to special education. The Department has been unwilling to make such a retroactive change particularly when the Legislature was so clear in Education Code Section 56732 about the cost components which were to be excluded for determining special education costs for calculating the support services entitlement:

"Each district and county office shall submit to the county superintendent the adjusted operating costs for special education in fiscal year 1979-80. Adjusted operating costs shall be computed by reducing the total cost for special education reported by the district or county superintendent for fiscal year 1979-80 less the costs of special transportation, services provided for by nonpublic, nonsectarian schools, tuition paid to other school districts or county offices for special education programs, and services during the 1979-80 fiscal year but not paid during the 1980-81 fiscal year, pregnant minors programs, programs to provide instruction in the home or hospital for pupils with temporary physical disabilities, and, if appropriate, regionalized services, as enumerated in subdivision (c) of Section 56220."

"The amount included in the total cost of special education for indirect support costs shall not exceed 4 percent of the sum of direct costs plus direct support costs."

Until such time as the Legislature specifically restricts the options for allocating direct support costs, the Department cannot support such a restriction in the application of these costs, particularly on a retroactive basis. Of course to the extent that school districts do not follow the procedures set forth in the accounting manual, the Department of Finance's Financial and Performance Accountability Unit which instructs CPAs on how district audits are to be performed could make appropriate changes in the audit instructions so that these districts can be identified.

A third point which needs clarification is the nature of the audits performed by the Controller and their relevance to special education policy. These were not standard audits in the sense that the Controller did not attempt to determine the "real" cost of special education in 1979-80 which would have required a review of both the appropriateness of costs charged to special education and charged to other program costs. Instead his staff looked only for costs which should not have been assigned to special education. (This aspect of the Controller's review was particularly difficult for almost all of the districts which were reviewed to understand.)

From the Department's perspective, the most important finding from these reviews was that there may well be systemic problems with the documentation school districts use for allocating costs on a programmatic basis. If this is the case, then program cost information for all programs, not just special education, are thrown into question. Because of the systemic nature of the Controller's findings and the one-sided approach to the reviews themselves (i.e. they did not try to identify the "real" cost of special education), the Department concluded that it would be extremely unreasonable to modify the special education costs for the 35 districts and counties which were reviewed.

Of course the larger and more important issue raised by the Controller's reviews was the overall accuracy of school districts' program cost accounting and its future relationship to program entitlements for special education and other programs. Unless the state is prepared to significantly increase the requirements for program cost accounting, it is unlikely that uniform program cost data, to the degree sought by the Department of Finance, can be obtained. Presently, except for 1979-80 special education costs, the program cost data annually prepared by school districts is used for local management decision making—not state apportionments. To introduce a substantial set of new requirements in order to provide a higher degree of uniformity and accuracy of statewide cost data would probably not serve the present local use for this type of data. Given this dilemma, the utility of basing any apportionment or allocation system on actual program cost data must be questioned. Presently special education is the only major program which depends on such a determination. Your staff is very familiar with the efforts and the frustrations of the Department's Technical Task Force and the Special Education Commission to identify a simple yet equitable way of determining support services entitlements which does not rely on actual program cost data.

Department of Finance Recommendation #4:

The Department of Education should adopt clear, consistent standards with a limited number of approved testing instruments, for placement of children into Special Education Programs. Such standards should include some form of typical program outline such that the individual with exceptional needs, requiring Special Education services, will receive similar services regardless of where they reside in the State and regardless of what particular school within a district they may happen to attend. Such standards should include an explicit definition of when students are appropriately served by compensatory education or remedial programs, within the school, rather than, or in addition to, Special Education Programs.

The Department disagrees with the above recommendation for several reasons. First, to restrict assessment instruments to a limited list of approved tests may jeopardize a child's right under federal regulations (34 CFR 300.532-5300.543) and state law (EC 56320-56327) to be an appropriate assessment. Pursuant to federal regulations and state statutes, current assessments must be based on the individual child's suspected areas of disability as determined by a multi-disciplinary team and consented to by the parent. A limited list developed and approved at the state level may not include tests appropriate for all children and would thereby violate the child's right to an appropriate assessment. Such a list takes the decision-making responsibilities away from the local professionals who know the child best and who are regularly involved in conducting assessments.

This portion of the recommendation also ignores the fact that assessments include more than the administration of standardized tests. Both federal regulations [34 CFR 300.532(b) and 300.542] and state statutes (EC 56320-56327) require other procedures, such as observations in an appropriate setting, and educationally relevant health and development findings.

In addition, after the Larry P. decision, the State Board of Education decided that the selection of testing instruments and procedures should be part of a local decision as to the needs of each individual child. The Department supports this decision and provides leadership in this area through the development of various documents such as program guidelines (i.e. Handicapped Infant and Preschool Children: Program Guidelines, Appendix A, B, and C). Other documents were developed specifically for the nine regional workshops on the eligibility criteria held in spring 1983 and for various inservice activities conducted through the Special Education Resource Network.

With regard to the development of a "typical program outline," the Department feels that this would violate both federal and state law which specifically require that placement decisions be made locally by an individualized education program (IEP) team and that all program options be made available to all individuals with exceptional needs (34 CFR 300.551 and EC 56360). For example, any individual with exceptional needs may be served in the resource specialist program if such placement is determined appropriate by the individualized education program team. Further, the resource specialist program is not the only available program option for individuals with exceptional needs determined eligible under CAC Title 5, Section 3030(j), (specific learning disabilities).

The Department acknowledges that inconsistent services exist across the state. However, the establishment of "typical program outlines" cannot alleviate such problems. The regionalization concept, one of the primary Master Plan for Special Education concepts, provided for the establishment of cooperative regions, now known as Special Education Local Plan Areas (SELPAs), to remedy this problem by insuring that no individual with exceptional needs is denied a needed service because such service is not available in his/her district of residence. Regionalization also promotes local area planning and control, according to local needs and resources.

The Department further disagrees with the proposed program outline because it promotes a categorical system of delivery which has been found ineffective in meeting individual children's needs (another basic concept of the Master Plan for Special Education). Such categorization of special education programs would make it more difficult for local education agencies (LEAs) to coordinate categorical services and magnify the existing discrepancies across the state.

A final point concerning this element of the recommendation is that its intent is to promote similar services statewide; however, you have failed to recognize that that was the exact intent of the Legislature in requiring the adoption and implementation of eligibility criteria.

The third component of the recommended standards is an "explicit definition" of when students are appropriately served by remedial programs instead of by special education. The Department feels that such a definition is not possible because children are different, with varying combinations of needs, and it would be impossible at the state level to include all such needs and combinations into a workable definition. Furthermore, some children require the services of special education and of other categorical programs; not either or. To attempt this is to move again toward specific categorization of services which has already been proved inappropriate in this state.

The Department agrees with the statement of need to better coordinate the various programs in order to meet such children's needs in a more efficient manner. This need may remain with us indefinitely, given human frailty; however, one step towards improving such coordination already undertaken by the Department is to promote student study team concept. The student study team is one of the Superintendent's top 10 priorities, and a task force has been established consisting of Department staff representing the various programs and field representatives.

The Department recognizes that some students have been referred for special education who could have been effectively served through the resources of regular education or other categorical programs.

The purpose of a student study team is to utilize all appropriate resources of regular education, including categorical programs to meet a student's educational needs before referral to special education, which is not a remedial program. The student study team is designed to be a major resource to the regular classroom teacher. The team, which at all times must include the

referring teacher, is established to help regular education teachers deal with the academic and/or behavior problems of individual students in the following ways:

1. Clarification of the "problem(s)" and a definition which facilitates a search for solutions.
2. Assistance in the gathering of relevant and accurate information regarding the student's performance.
3. Assistance with the analysis of all available information, and with the designing of classroom strategies which are realistic and effective.
4. Assistance with the implementation of student academic and/or behavior strategies, including:
 - a. Curriculum material support
 - b. Consultation and monitoring
5. Assurance that, when a decision to refer a student for special education is made, it has been well considered, the need clearly established, less restrictive alternatives have been attempted, and a group consensus has been reached.
6. Training in the crucial area of how to work with an individual student's problems, which can be generalized to increase a teacher's effectiveness with similar students in the future.

The student study team not only fulfills federal and state requirements (EC 56303), but promotes local program coordination and should result in a cost savings.

In conclusion, the Department questions the logic of this recommendation in that the eligibility criteria became effective March 3, 1983, and have been in force only a few months. Although the report acknowledges that the criteria have been adopted only recently and that it "may not do enough to promote consistency of assessment..." (page 56), it appears that this recommendation is based not on fact but on someone's opinion of what may occur. To utilize staff time and resources towards implementing a recommendation that is not based on a documented need is highly unadvisable.

The Department does not feel that it is appropriate to recommend changes and additional standards at this time since the criteria have not been implemented for a full year and no evaluation has been performed on which such recommendations would have to be based. The Department is currently designing an evaluation study of the criteria to be initiated in the fall of 1983. Upon completion of this study, necessary steps based on documented findings will be taken to improve the delivery of appropriate educational services for all children in California.

Department of Finance Recommendation #5:

The Department of Finance proposes that the Department of Education and the Legislature consider placing Special Education funding for nonseverely handicapped children into a block grant.

Department of Finance Recommendation #6:

The State should only require that:

- o Local school districts continue to serve, and to protect the rights of, handicapped children.
- o Block grant resources be used for programs supplemental to, and not to replace, the Revenue Limit funded regular education program.

Because these recommendations are so similar it appears appropriate to respond to them together. The Department shares the concerns many people have about the growing complexity of categorical programs and the relationship of these programs to the "regular program." Because of this concern the Department invested considerable time studying the Governor's proposed Block Grant and the problems that have been identified in association with categorical programs. Our conclusion was that the Governor's proposal was a superficial response to an extremely complex set of issues and if implemented might exacerbate rather than reduce the problems that have been identified. When this proposal was discussed by the Assembly and Senate budget committees, they agreed with the Department's position and the proposed Block Grant was rejected.

The Department is fully committed to improving the relationship between the categorical programs and the base program and minimizing unintended consequences of this relationship and administrative requirements whenever possible. As the largest categorical program, special education clearly will be the focus of much effort in this regard. Furthermore, as we have learned from our analysis many of the "problem areas" in categorical programs are more a function of attitudes and misunderstandings about how requirements are to be met rather than structural flaws in the law itself. For these reasons, your recommendations concerning a block grant for nonseverely handicapped students are unlikely to make a positive contribution towards resolution of these issues.

If you have any questions regarding this response, please call Bob Agee (2-3024).

GM:baj

DEPARTMENT OF FINANCE RESPONSE
TO THE DEPARTMENT OF EDUCATION RESPONSE

The Department of Education's initial point in its response is that, in their view, the principal problem with Special Education has been the failure of the Legislature to provide full funding for the entitlement model used to support Special Education Programs operated by local agencies. Our position is that, in our opinion, much of the reluctance of the Legislature and the Administration to support additional resources for Special Education has been the lack of accurate cost information. This has made it impossible for State policy-makers to judge whether or not the resources provided for Special Education are adequate to fund the services provided to handicapped children. Much of the controversy and misunderstandings which have surrounded Special Education funding over the past three years have resulted from the failings of the cost reporting system which was to provide the base-line cost information to be used as the foundation for the Special Education funding model. The current debate over Special Education funding is also based, in large part, upon inaccurate and, we argue, inflated Special Education cost reports. The result has been an increasingly costly system which distributes resources among districts inequitably.

Department of Finance Recommendation No. 1 concerns the need for a review of the continued use of the J41A and J73A for cost determinations in Special Education. The Department's response centers on the fact that these forms are no longer used directly to determine the level of State funding and

that the entitlement levels which were originally generated under the Master Plan funding model, based on these cost reports, have been altered or squeezed to reduce the total State entitlement. The Department ignored the central thrust of the Department of Finance argument: that it is impossible for policy-makers to determine the adequacy of State funding for Special Education Programs until we have a cost reporting system which produces information which is consistent and uniform and can be used for purposes of statewide comparison.

The Department of Education also notes that the Form J41A is a management information tool for local school districts and county offices of education and that, because of this, it is important that local management have sufficient flexibility to reflect the allocation of cost in a manner which is consistent with their management needs. This argument is difficult to accept for anyone who has actually gone out into the field and spoken to those individuals who prepare these forms. They are generally regarded as useless by the school districts involved and are prepared only for submission to the State Department of Education. Their direct support cost allocation plans usually reflect not top management decisions as to the appropriate allocation of district resources, but rather a desire to complete the form in a timely fashion and submit it to the State. The California Association of School Business Officials has issued reports which note the low degree of reliability which the school business officials themselves attribute to these reports.

The Department of Education also notes that to the extent that more uniformity in reporting is needed, the Legislature should direct it. This ignores the fact that the Legislature, in implementing Education Code

Section 41012, did direct such uniformity for purposes of reporting the cost of Special Education Programs. It is precisely the lack of enforcement of the existing law which has led to the present dismal state of fiscal reporting and management information available to State policy-makers dealing with a Special Education Program which costs \$1.4 billion annually.

Recommendation No. 2 concerns the special education taxes that were included in the 1972-73 base year of SB 90 and which were rolled into the now State funded Revenue Limit. The Department of Education response points to the many changes which have taken place in school finance since the 1972 implementation of SB 90 and notes that it would be unlikely that the current benefit of these actions involving the Special Education override taxes in the district base would be anything but minimal. The Department ignores the principal point of the Department of Finance argument, which is that the existence of these Special Education taxes in the general purpose revenue calculation begs the argument made by school district personnel when they ask for additional funds for Special Education Programs. Their argument is that the programs should be funded entirely out of supplemental State funds and that none of the program costs should be borne by the districts' general purpose revenues. Secondly, the argument is factually incorrect. If the base school finance calculations had been \$70 million less in total in 1972-73, then the State's current cost for funding the Revenue Limit Program would be approximately \$150 million less than it is currently--the situation discussed in the report. We simply feel that it is important to advance the argument that school districts do have an obligation to utilize general purpose revenues to provide some support for their Special Education Programs.

In addition to the above argument, we have heard the argument that the permissive Special Education taxes were levied by large urban school districts and that, since these types of districts had higher than average base Revenue Limits, the Serrano squeeze will have operated to eliminate--rather than enhance--the "bonus" to these districts. We examined the levels of Special Education taxes in Alameda, Los Angeles, Fresno, Santa Clara and Sacramento counties and found that this argument is not correct. Low base Revenue Limit districts were just as likely to have had high permissive taxes as were high base Revenue Limit districts, and the same holds for districts with low (or zero) Special Education taxes in the base year.

Department of Finance Recommendation No. 3 suggests that the Department of Education should be required to adopt clear and consistent standards for the accounting of expenditures for Special Education Programs, and that these standards should be based upon the direct excess cost approach. The Department of Education correctly points out in their response that the need for better accounting procedures in education really extends to all school programs, and not just to Special Education Programs. Our emphasis on Special Education has come about because of the tendency of program advocates to utilize cost data to support demands for increased Special Education funding from the State to match these suspect cost reports. The response cites E.C. 41010, which establishes the responsibility of the State Board of Education to issue the California School Accounting Manual (CSAM), but neglects to follow that citation with E.C. Section 41012, discussed above, which requires that Special Education Programs have uniform accounting procedures.

The Department of Education response cites the responsibility of the CPAs who perform the annual audit of school districts required by the Education Code and the use of audit guidelines established by the Department of Finance. While we are unable to offer conclusive evidence regarding the adequacy of current CPA audits of school districts, our field work has led us to conclude that serious concerns about the quality and usefulness of these reviews are appropriate. Specifically, the large number of school districts which allocate direct support costs using methods which are clearly not approved by the CSAM leads us to conclude that the allocation plan and the J41A which reports the results of that plan are not considered to be important documents by CPAs when performing their audit function. The bulk of the audit effort appears to be involved in reconciliations of expenditures by object. Under the present CSAM, there are so many different possible combinations of allocation plans for direct support costs available to school districts--as well as much variation in practice in the allocation of direct costs--that it is difficult to draw any conclusions from the information which is produced either by a district or statewide. In addition, many districts which do use approved allocation techniques do not maintain sufficient records to verify the resulting allocations in an audit situation. While to some degree the problems described are the appropriate responsibility of the Department of Finance in its production of the audit guidelines--and those concerns are being addressed by the Department of Finance--it is the lack of clear and consistent accounting standards and practices which is the root cause of the problems which we have described--and this is the responsibility of the Department of Education.

The Department of Education response notes that Department of Finance staff have long contended that variations in methods of reporting Special Education costs, even when authorized by the current California School Accounting Manual, are inappropriate for determining Special Education costs. This is correct. The uniformity of reporting Special Education costs is important precisely because the program has been treated as an "add-on" State mandate by many local school district advocates and acceptance of the current cost reports is implicit in current proposals to fund Special Education Programs at levels sufficient to buy-out "encroachment." When the State does not have accurate program cost information available, then State policy-makers are unable to accurately assess the adequacy and inter-district distributional equity of the present funding levels.

The Department of Education incorrectly asserts that the Department of Finance is currently suggesting that the Department of Education retroactively exclude direct support cost options available to districts. Our principal concern has been, and continues to be, having available accurate data on the expenditures and revenues specifically dedicated to Special Education Programs. These expenditures should reflect the direct excess cost approach which would include only costs which would not have occurred in the absence of Special Education Programs in order to provide policy-makers with accurate data on the costs of the changes in school spending which have occurred because of State and Federal programs for the handicapped. It is not essential that such a cost report be identical to that submitted as part of the J41A submission as part of the overall program cost allocation, although that is certainly the most desirable alternative. While we acknowledge that

it would be quite useful to have accurate information as to Special Education costs for every recent year, we recognize that the poor quality of the allocation plan records in many districts would make accurate reporting impossible in many cases. What would, however, be readily and easily identifiable in past and present years would be the direct excess costs of Special Education, since this consists of direct instructional personnel costs, Special Education site costs and Special Education specific administrative costs which are almost always readily identified in district records. The complications in producing the present cost reports arise specifically from the efforts needed to allocate to Special Education Programs costs which are, in actuality, fixed to the district: e.g., regular site administrators, guidance and counseling, general district administration and the governing board. The cleanest Special Education cost reports would also be the easiest to prepare and compare.

Turning to the comments of the Department of Education regarding eligibility criteria and program coordination, we note their disagreement with Recommendation No. 4, that they "should adopt clear, consistent standards with a limited number of approved testing instruments for placement of children into Special Education Programs." Their objection states that "a limited list developed and approved at the State level may not include tests appropriate for all children and would thereby violate the child's right to an appropriate assessment. Such a list takes the decision-making responsibilities away from the local professionals who know the child best and who are regularly involved in conducting assessments."

Our recommendation parallels the approach taken for other educational assessments. There is precedence for the use of a limited number of testing instruments approved at the State level in the assessment of language proficiency for limited and non-English speaking pupils. After review by the Department of Education, certain language tests were approved for use in local school districts. We recommend that the Department conduct a similar review of Special Education assessment instruments and adopt only those which meet the technical standards adopted by the American Psychological Association and the American Education Research Association. Our concern is with non-standardized tests--which do not meet national standards--being used to designate children as handicapped. We think a child's right to an appropriate assessment includes the right to be assessed only by those instruments which have been demonstrated to reliably and validly measure what they claim to measure.

The criteria we are recommending would not usurp the responsibilities of the "local professionals." They make the determination whether the testing discrepancies are the result of a learning disability or due to social, cultural or educational experiences. If they decide that standardized tests are "invalid for a specific pupil," they may measure the discrepancy "by alternative means as specified on the assessment plan." When we met with Department officials to discuss the eligibility criteria prior to their release, we were told that such exceptions should be rare. The Department however, rejected our recommendation at that time that districts be required to submit a simple count of the number of alternative means assessments to insure against abuse of this "loophole." In the current report, we are

recommending the adoption of a limited number of approved testing instruments so that there is a minimum standard base of information to which can be added information obtained locally from sources such as observations or educational and developmental histories. Our concern about the consistency of assessment is based upon interviews with psychologists in the field and with some of their representatives. Our interviews suggest that there is some confusion about what constitutes a "significant discrepancy" and that strong State leadership will be required if access to Special Education Programs is to be equalized for all the State's schoolchildren.

The final two recommendations of the Master Plan Update report propose that the Legislature consider treating the funding of Special Education Programs for the non-severely handicapped as a block grant. The intent is to maximize the flexibility available to local educators to serve their pupil populations, effectively recognizing the tremendous variations which now exist in the actual operation of Special Education Programs in various districts. The Department's response is similar to its response to the block grant proposal in the Governor's budget, and it cites the failure of the Legislature to adopt that proposal as evidence in support of its position. Programmatically, it uses the argument to support its objective to implement a child study team approach for regular education. We feel that the response does not speak to the evidence which we presented concerning the wide variations in selection and service procedures for the non-severely handicapped and the substantial overlap which exists between "remedial" and "special" education programs and their "regular" education partners.